MARCH 1977

FEDERAL RESERVE BULLETIN

Housing in the Recovery

Treasury and Federal Reserve Foreign Exchange Operations

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Housing in the Recovery

This article was prepared in the Mortgage and Consumer Finance Section of the Division of Research and Statistics.

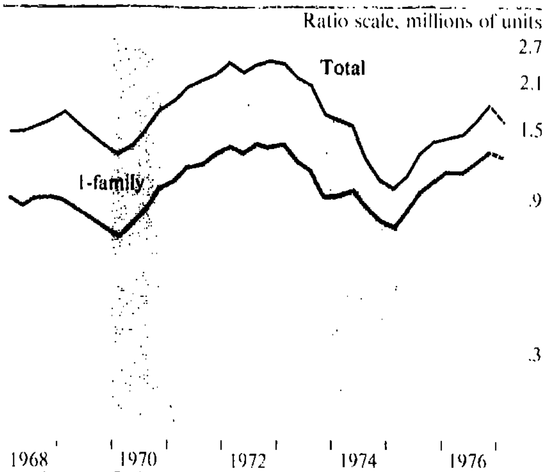
A major upswing in housing activity has been in progress now for 2 years. Although unusually severe winter weather interrupted the uptrend in private housing starts early in 1977, both financial and nonfinancial factors point to a continuation of the expansion in coming months. Mortgage lending commitments outstanding at the nonbank thrift institutions have held near the record high reached at the end of 1976. Sales of new and existing homes—although down somewhat in January—have remained strong, while average prices of new homes sold have continued to rise relative to costs of construction. Moreover, rental markets have been tightening in many areas of the country, providing the basis for expanded investment in multifamily properties.

In terms of its role in the general economic recovery, the current upswing in housing construction has differed somewhat from earlier patterns. From the standpoint of timing, total housing starts have ordinarily led recoveries in aggregate economic activity; in previous postwar cycles, upturns in housing starts preceded business-cycle troughs by more than half a year, on the average, and in 1970 the lead was 10 months. In the current cycle, however, housing starts began to rise only a month before over-all economic activity reached its low, reflecting both the effects of substantial overbuilding during the earlier real estate boom—particularly in the multifamily sector—and the extended period of time needed by financial intermediaries to reduce outstanding debt and to rebuild depleted liquid asset balances.

Associated with this development, the share of residential construction expenditures in the gross national product (GNP) declined throughout the 1974–75 business recession—also contrary to the more usual pattern. The residential construction share then increased only slightly in the early quarters of the recovery in general business activity, despite a surge in outlays for additions and alterations to existing residential structures. By the fourth quarter of last year, the share had risen significantly from the business-cycle trough, but it remained well below levels reached at comparable stages of most other postwar expansions. (See Chart 2.)

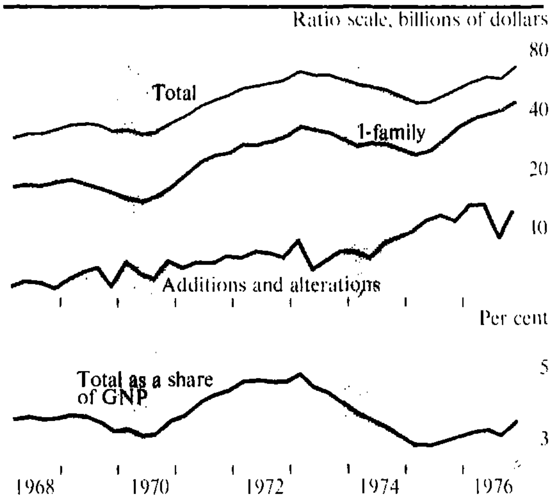
The recovery in homebuilding has been financed by a sharp expansion in mortgage lending. This expansion was fueled in large part by

1. Private housing starts



Census Bureau seasonally adjusted monthly data at annual rates converted to quarterly averages by F.R. "Multifamily" includes structures with 2 or more units. Shading indicates periods of recession as designated by the National Bureau of Economic Research (NBER). Latest data, Jan.–Feb. average.

2. Value of new residential construction



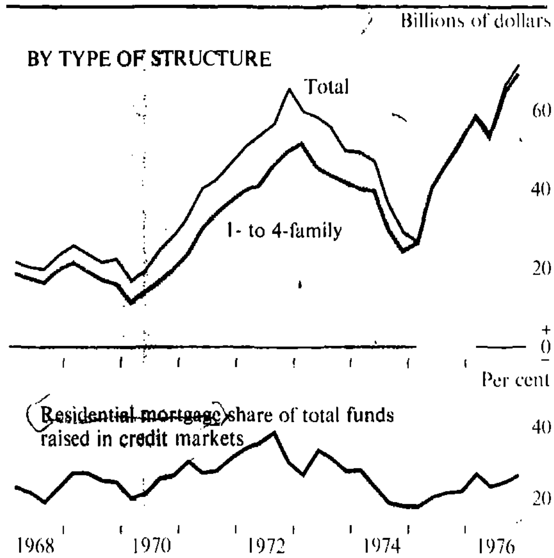
Census Bureau data on value of new construction put in place, at seasonally adjusted annual rates. "Total" includes nonhousekeeping units, not shown separately, and excludes mobile homes and sales commissions on new and existing residential properties. "Additions and alterations" derived by F.R. from Census series. "Share of GNP" based on constant-dollar values for both total residential and GNP. Shading indicates periods of recession as designated by the NBER.

strong net savings flows to depositary institutions, which picked up as short-term market interest rates declined from their cyclical peaks in 1974. In the final quarter of last year, residential mortgage debt formation reached a record high, almost triple the amount at its low in the first quarter of 1975. The residential mortgage share of all funds raised in U.S. credit markets, which had declined during most of the general recession, has increased appreciably thus far in the recovery and it exceeded a fourth in the final quarter of 1976. Even so, this was well below the share attained at similar stages of most other postwar expansions.

Throughout the current housing recovery, savings and loan associations have dominated the residential mortgage markets to an even greater degree than usual; direct mortgage investment by these institutions accounted for about two-thirds of the growth in residential mortgage debt outstanding last year. Perhaps even more striking, mortgage-backed securities have become a much more important factor in housing finance. In fact, in recent quarters pools of mortgages used as collateral for securities issued and/or guaranteed by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Farmers Home Administration (FmHA) have accounted for more than a fifth of the net increase in residential mortgage debt outstanding. While savings and loan associations have at times been major investors in these liquid bond-type securities, other investors—including pension funds—not traditionally active in the market for mortgage loans have also been purchasing such securities.

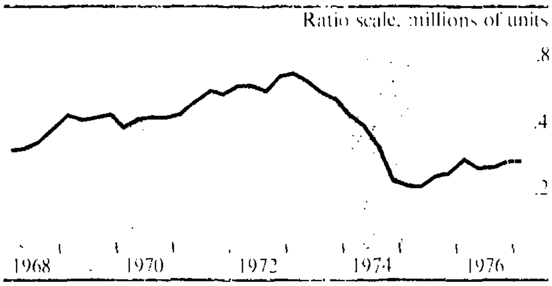
Single-family housing has dominated the current recovery in the residential building and mortgage markets to a much greater extent than in other recent cycles. By the end of 1976, starts of such units were near the highs recorded in 1972 and early 1973—a period when Federal subsidy programs designed to stimulate homebuilding were particularly active. In contrast, starts of multifamily housing units, even after

3. Net change in residential mortgage debt



Quarterly mortgage debt data by type of structure estimated and converted to seasonally adjusted annual rates by F.R. as required to supplement reports of Federal agencies and private sources. Total funds raised in credit markets refers to all funds raised in U.S. credit markets excluding equities by all nonfinancial sectors, both private and foreign. Shading indicates periods of recession as designated by the NBER.

4. Mobile home shipments



Private domestic shipments of new mobile homes as reported monthly by the Manufactured Housing Institute, seasonally adjusted and converted to annual rates by the Census Bureau and to quarterly averages by F.R. Shading indicates periods of recession as designated by the NBER. Latest data, Jan.–Feb. average.

a substantial rise in the second half of last year, have remained below the pace registered at the trough of the previous housing cycle in 1970. Meanwhile, apart from the conventional housing sector, shipments of mobile homes—which had accounted for a fifth of all types of housing units completed in the boom years of 1972 and 1973—have recovered only modestly during the current economic expansion.

SINGLE FAMILY HOUSING

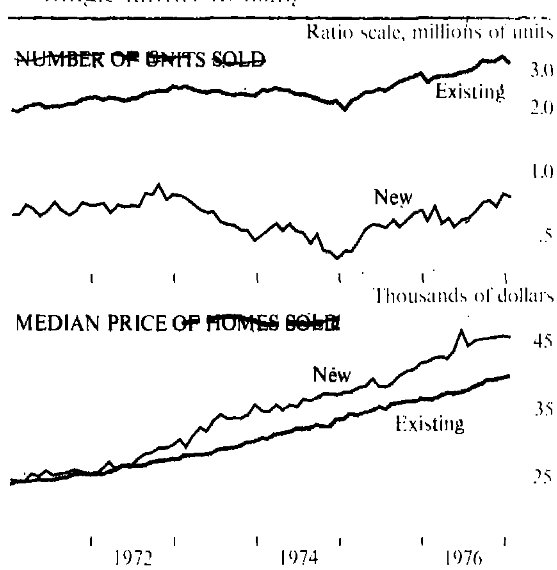
Sales of both new and existing homes have expanded vigorously during the upswing in housing activity. By the end of 1976, they had reached a combined rate nearly double the low 2 years earlier. To some extent, this strength reflected pent-up demand resulting from postponed purchases during the prolonged economic slump of 1974–75. Also, the inflation-hedge potential of homeownership and the opportunity for upgrading have remained strong investment incentives for households able and willing to meet the costs.

HOME BUYER CONSIDERATIONS

The strong demand for single-family homes has been reflected in rapidly rising prices of both new and existing homes. Prices of new homes sold have increased at a somewhat faster pace than existing-home prices over the recovery period, as was the case earlier in the 1970's. This has been due to a persistent rise in the quality—size and related amenities—of new homes sold. After adjustment for changes in quality, the increase in new-home prices has about matched the rise in average prices of all types of existing homes sold—around 20 per cent over the past 2 years.

Escalating prices of homes have been primarily responsible for increases—to unprecedented levels—in average monthly payments on newly originated mortgages, although the maintenance of average mortgage interest rates at levels close to 9 per cent has also been a factor. In early 1977, average monthly principal-plus-interest payments on conventional first mortgages made to finance the purchase of new homes exceeded $300. That was more than 50 per cent above the average prevailing as recently as 1973 before the cyclical upswing in mortgage rates. Moreover, the rise in average mortgage payments—which in the case of new buyers normally account for about

Single family housing



Merchant builder sales of new homes as reported monthly by the Census Bureau, and existing home sales as reported by the National Association of Realtors, both at seasonally adjusted annual rates. Median prices of new and existing homes sold, also reported by these sources, seasonally adjusted by F.R.

two-thirds of total homeownership costs—has occurred at the same time that costs of operating homes have mounted. For example, real property taxes have risen along with home prices, and fuel and utility costs have increased more than 50 per cent since the energy crisis emerged in 1973. Although average family income has also been rising, it has not kept pace with such increases in homeowner costs.

Prospective home buyers have also been faced with sharply rising downpayment requirements as home prices have soared. In the case of new homes, the average downpayment on conventional first mortgages—the major financing instrument used—exceeded $13,000 in early 1977. This was more than 10 per cent above a year earlier and about three-fifths higher than levels prevailing in 1973 when average loan/price ratios on such mortgages were about the same as currently.

Because of diversity in income and wealth positions, some households have obviously been in a better position than others to afford the advanced costs of home purchase and operation. In particular, home buyers with houses to sell or to trade have in general held a greater-than-usual advantage over first-time buyers, and such households have been a major factor behind the strength of demand for single-family homes. Homeowners as a group have accrued large amounts of housing equity during the rapid inflation in home prices since 1970, in many cases on highly leveraged positions that offer the potential for large capital gains on the basis of relatively small initial investments. Thus, sellers of existing homes, who in recent years have accounted for about half of all home buyers in any case, have been able to use such equity to help meet downpayment requirements on the purchase of new or existing units. Moreover, this equity can facilitate trading up to better homes or the placement of downpayments larger than lenders require—thus effectively lowering monthly mortgage outlays. First-time home buyers, who tend to be concentrated in the growing number of households with heads in the 25- to 34-year age group, must ordinarily meet downpayment requirements out of financial asset balances.

As generally occurs, home buyers who entered the market with an existing home to sell have not always invested all of their accumulated housing equity in a newly acquired unit. In a period of ample mortgage funds, many households have instead opted for as large a mortgage as lenders would permit on homes purchased, thus raising funds through the mortgage market to be used for other purposes. Of course, homeowners who have not moved may also borrow against their housing equity by taking out second mortgages or by increasing the size of first mortgages through refinancing.

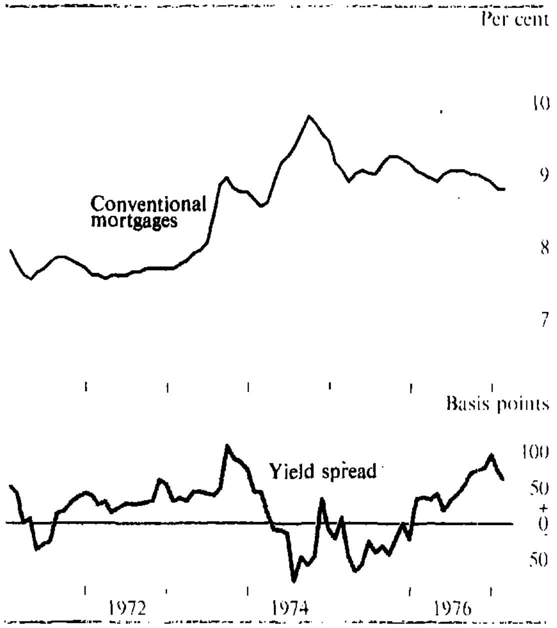
Available data suggest that homeowners have been liquidating large amounts of housing equity by these three techniques. It is estimated that in 1976 the net increase in long-term home mortgage debt of households exceeded the value of household net purchases of new and existing homes (including condominium units in multifamily structures) by about $15 billion. This increase compares with less than $1 billion in 1974 when credit conditions were relatively tight.

Lender Behavior

Faced with extremely strong demands for home mortgage funds, lenders have reduced average interest rates on new commitments for long-term home mortgages only slightly over the course of the economic recovery. By contrast, most other long-term interest rates declined substantially last year. As a result, the yield spread between home mortgages and bonds—a factor of some importance to lenders with broad investment options—widened considerably during 1976 and has remained rather large since then even though bond rates have risen.

The relative stability of home mortgage rates during the recovery period has been attributable in part to some easing by lenders of nonrate loan terms, indicated by higher loan/value ratios and longer contract maturities. The stickiness of mortgage rates has also been due to reluctance on the part of diversified lending institutions—such as commercial banks and mutual savings banks—to commit funds to long-term home mortgages. This reluctance was particu-

6. Yields on home mortgages and bonds



"Conventional mortgages" are monthly average contract interest rates on new commitments for conventional new-home mortgage loans in the primary market, based on HUD (FHA) field-office reports. "Corporate bonds" are monthly average implied yields on newly issued Aaa-rated utility bonds with 5 year call protection, estimated by F.R. "Yield spread" is mortgage yield less bond yield.

larly marked during 1975, when mortgage yields were still relatively low compared with yields on other long-term debt instruments and lenders were placing heavy emphasis on improving the liquidity of their portfolios.

In an environment of rapid home-price appreciation, however, investors have apparently not been overly concerned about the quality of mortgage credit on single-family homes. Delinquency rates on outstanding home mortgages, which had risen only slightly during the 1974–75 business recession, have changed little since then, after allowance for seasonal influences. Meanwhile, foreclosure rates have been trending downward, owing to the economic recovery as well as to special Federal efforts to encourage lender forbearance in accordance with provisions of the Emergency Homeowners' Relief Act of 1975.

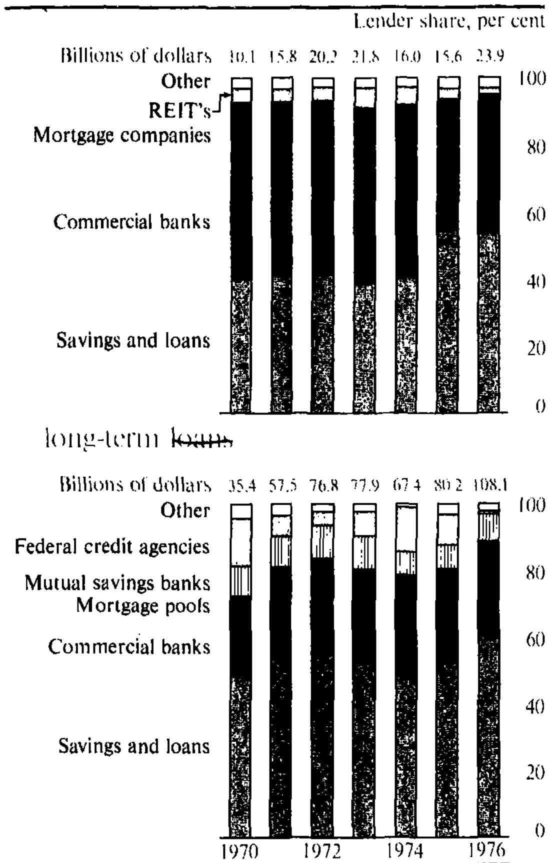
As the housing markets began to recover in 1975, savings and loan associations acquired more than half of all long-term home mortgages made. With direct mortgage investment by diversified private financial institutions quite limited, Federal and related credit agencies and mortgage pools backing issues of securities guaranteed by GNMA, FHLMC, or FmHA accounted for most of the balance.

As yield spreads vis-a-vis bonds improved in favor of home loans during 1976, commercial banks and mutual savings banks increased their direct investment in mortgages to some degree, particularly in the latter half of the year. Nevertheless, the savings and loan share of the expanded volume of mortgage lending rose even further. Net acquisitions by the Federal and related credit agencies fell sharply last year, primarily because of sales to private investors by GNMA and FHLMC of home mortgages that had been acquired under interest rate subsidy programs instituted during the business recession. Some sales were in the form of mortgage-backed securities guaranteed by the agencies.

Mortgage pools accounted for an even larger share of total acquisitions of long-term home mortgages in 1976 than during 1975. Indeed, \$13.8 billion in GNMA-guaranteed "pass-through" securities—backed by home mortgages underwritten by the Federal Housing Administration (FHA) or the Veterans Administration (VA)—were issued in 1976. This was equivalent to more than two-thirds of all FHA/VA home loans originated last year. Diversified investors purchased an unusually large share of security issues based on these pools—thus indirectly supplying a significant quantity of funds to the home mortgage market. Demand by savings and loan associations for GNMA-guaranteed securities fell sharply after mid-1976 as yields on these securities—which move closely with bond yields—dropped well below average returns on home mortgages acquired in the primary market.

With long-term financing readily assured, lenders have been quite willing to make short-term loans to builders for the construction of single-family structures. Average interest rates on single-family construction loans—generally linked to the bank prime rate—are currently around 9 per cent as compared with levels of 12 per cent or more at the beginning of the recovery period. In 1975 and 1976 savings and

Home mortgage markets:
Construction loans and



Based on data for 11 major lender groups accounting for about 93 per cent of total 1- to 4-family mortgage debt outstanding, as reported by HUD. "Construction loans" are in terms of originations; "long term loans" are in terms of net acquisitions -originations plus net purchases.

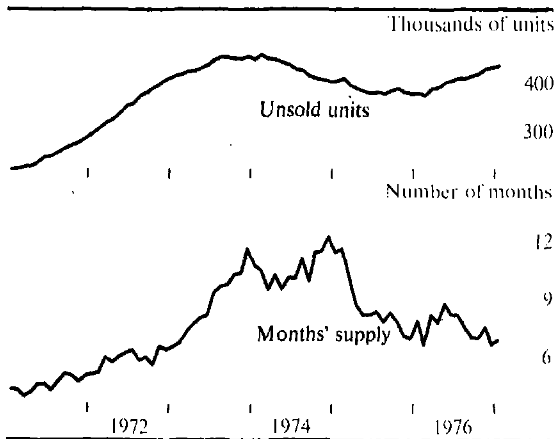
loan associations provided more than half of all mortgage loans for the construction of homes, while commercial banks—which also make construction loans not collateralized by real estate—supplied about a third. The share of construction loans made by mortgage companies, which obtain a significant part of their funds by borrowing from banks, has continued to fall from the unusually high levels attained in the early 1970's.

Builder Positions

While interest rates on construction loans have been receding during the recovery period, wholesale prices of building materials in general have been rising at a pace well below the rate of advance in 1974 and early 1975. Moreover, upward adjustments in construction labor costs have been comparatively moderate throughout the recovery. Even so, prices of lumber and plywood have been rising rapidly since mid-1976, and costs of land and land development have continued upward, owing in part to environmental, zoning, and related requirements.

With new-home prices rising briskly and construction costs increasing less sharply than before, merchant builders have been eager to start new single-family units in recent quarters despite high and rising inventories of unsold new homes. These inventories have posed no significant impediment to housing starts, partly because they reflect to a large extent a base made up of a slow-selling carryover of older completed homes that are for various reasons noncompetitive. Most newly completed units are selling quickly, and the recent additions to the stock of unsold new homes have been primarily units still under construction rather than completed dwellings. Finally, despite the overhang of unsold units, the inventory/sales ratio for new single-family homes has drifted down, and it is well below the highs that had been reached in 1974 and early 1975.

8. Home stocks at builders



Merchant builder stocks of unsold single-family homes are seasonally adjusted end-of-month figures reported by the Census Bureau. "Months' supply" is the ratio of end-of-month stocks to seasonally adjusted sales during that month.

Regional Differences

The degree of expansion in single-family starts, in sales of new and existing homes, and in home mortgage lending has varied widely across the country. Housing activity and mortgage loan demands have picked up most in the West—particularly in California—while the weakest recovery has been in the Northeast. Parts of the South (excluding Florida) as well as the North Central and South Central regions have experienced moderate growth.

These geographic differences have been associated primarily with differing degrees of economic recovery in various parts of the country and with ongoing population shifts in favor of the South and West. Additions to nonfarm payrolls in the Northeast, for example, amounted to less than 0.5 per cent during the year ending September 1976. At the other extreme, employment gains in the Far West and Southwest exceeded 2.5 per cent in the same period.

Owing primarily to the strength of demand for home mortgage funds, savings and loan associations in the West experienced a particularly large shortfall in loanable funds during 1976; that is, the loans they made exceeded by an unusually wide margin the sum of their net savings flows, interest credited, and loan principal repayments. Consequently, these associations relied even more heavily than usual on the secondary mortgage market in order to meet demands in their regions for mortgage funds, mainly for single-family dwellings. Altogether, the associations in the West accounted for about half of the dollar volume of all whole mortgage loans and loan participations sold by savings and loan associations in 1976, and for only about 10 per cent of loans purchased. Associations in the Northeast, by contrast, were large net buyers in the secondary market.

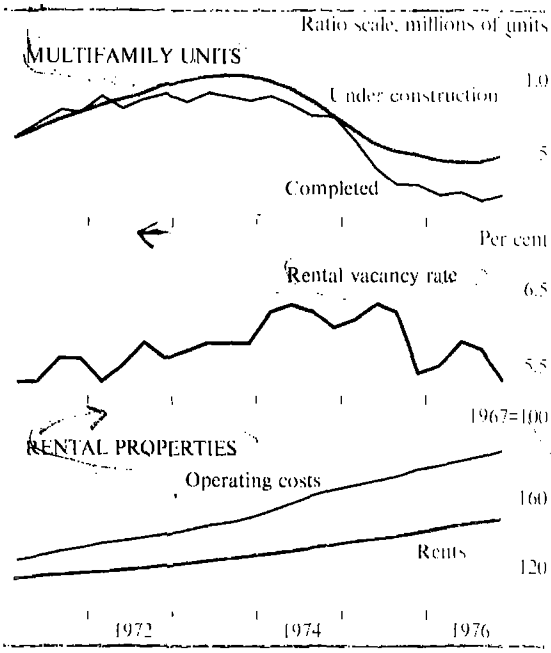
Multifamily Housing

Unlike single-family housing activity, the recovery in construction of multifamily structures—whether for rent or condominium ownership—has been sluggish in most parts of the country. This has reflected a number of problems associated with inflation and earlier overbuilding. Multifamily construction has as yet expanded appreciably in only a few local markets, located primarily in southern California and in Texas. However, rental markets have been tightening in many areas, and the sales rate for the reduced supply of newly completed condominium units—still low by earlier standards—has improved somewhat.

Occupancy Shifts

The demand for rental space in both new and existing residential properties of all types has been strengthening at a time when completions of multifamily units have receded to extremely low levels. As a result, new rental units coming

9. *Rental market indicators*



Multifamily units completed and under construction are Census Bureau seasonally adjusted data with completions at annual rates. "Rental vacancy rate," as reported by Census Bureau, is the percentage of all year round rental units in all types of structures that are vacant and available for rent. "Operating costs" index calculated by F.R. as a weighted average of various consumer and wholesale price indexes related to apartment owner costs; weights based on expense data for multifamily structures published by the Institute of Real Estate Management. "Rents" index is the rental rate component of the consumer price index.

on the market have been leased quickly. In fact, *85 per cent of the units completed during the* third quarter of 1976 had been rented before the end of the fourth quarter.

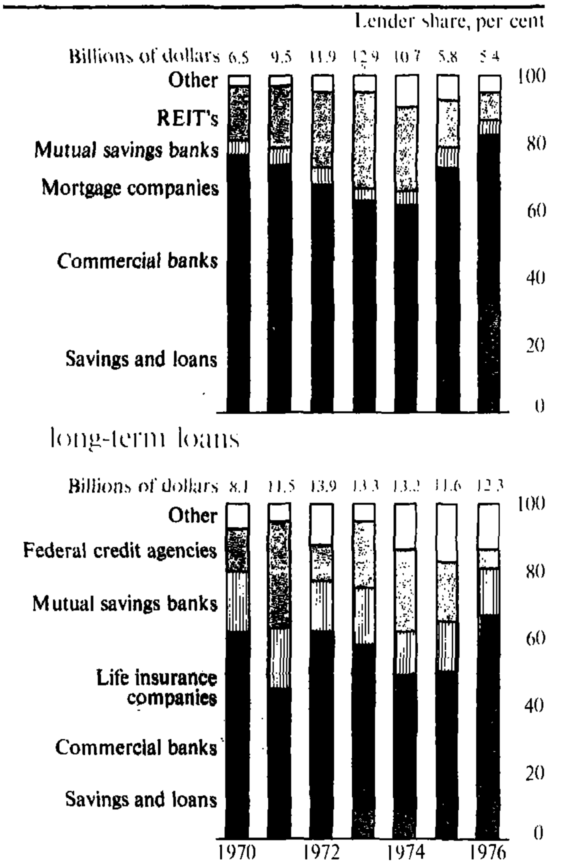
In addition, average vacancy rates for all types of rental properties have fallen significantly in recent quarters. The sharpest decline has occurred in the South, where the vacancy rate of 5.8 per cent in the fourth quarter of 1976 was the lowest in 20 years. During the previous boom the tendency to build ahead of demand had been most marked in the South; in early 1975, 8.4 per cent of all rental units in that region were vacant and available for occupancy.

Special Problems

The problems that have plagued multifamily housing markets since 1973 are in varying degrees still exerting a drag on the expansion in residential construction. While interest by investors in multifamily rental properties has improved somewhat, lenders in general remain quite selective in making loans for the construction of multifamily projects, even when commitments for long-term financing can be obtained by builders. As a general rule, construction loans for multifamily housing are relatively high-risk investments—even when conditions in local markets appear to justify the projects. This is because potential cost overruns, materials shortages, labor strikes, adverse weather, and shifts in housing market conditions pose a special threat over the comparatively long production periods involved.

The severe problems experienced by mortgage-oriented real estate investment trusts (REIT's) and other lenders in the wake of the unprecedented wave of condominium and rental project construction during 1972–74 left all lenders wary. The REIT's, which grew rapidly during the last boom and supplied as much as 30 per cent of all multifamily construction loans originated in 1973, are not currently a significant source of supply. In 1976 commercial banks and savings and loan associations accounted for most of the still limited volume of multifamily construction loans.

10. Multifamily mortgage markets: Construction loans and



Based on data for 11 major lender groups accounting for about 95 per cent of total mortgage debt outstanding on structures with 5 or more units, as reported by the HUD. "Construction loans" are in terms of originations; "long-term loans" are in terms of net acquisitions—originations plus net purchases.

Lenders have also been cautious about providing long-term financing for multifamily projects, given the deterioration in the quality of such credit in recent years. At life insurance companies, for example, delinquency and foreclosure rates on multifamily mortgages by mid-1976 were about four times higher than during the 1970–72 period. Indeed, net acquisitions of long-term multifamily mortgages by insurance companies have fallen to low levels; these institutions have been concentrating their long-term investments in corporate bonds. Savings and loan associations have recently accounted for nearly half of the reduced total, with commercial banks and mutual savings banks supplying most of the balance.

Repayment problems on outstanding long-term multifamily mortgages have occurred as many owners of rental projects have been caught in a cost-revenue squeeze. On the average the expense of operating rental projects has risen over the past 3 years at a considerably faster pace than have available rents. The sharpest increases have been in the costs of fuel and utilities, although all major cost components have increased significantly. Meanwhile, rent controls—or the threat of such controls—have limited rent increases in some areas. As of mid-1976, rent controls were in effect in about 230 communities—mostly along the east coast—containing about 14 per cent of the U.S. urban population; an additional 14 per cent of the population lives in areas where State laws permit rent controls or where State or local governments have recently considered rent control laws. Particularly under these conditions, prospective returns on multifamily rental projects have in many cases been too low and/or uncertain to warrant new investment.

Faced with eroding net income, some landlords have offered their properties for condominium sale, and others have sought to support their net income from rental projects by use of contracts that require tenants to pay directly for electricity, heating, and certain other variable costs associated with occupancy. The latter methods help landlords maintain levels of services for tenants without serious erosion of net income.

Federal Subsidy Programs and Institutional Adjustments

The pick-up in multifamily housing starts in the latter half of 1976 was associated partly with an acceleration in activity under Federal subsidy programs at a time when the prospects for profitable operation of rental projects were improving somewhat. In the second half of last year, starts under rental assistance programs of the U.S. Department of Housing and Urban Development (HUD)—primarily the Section 8 and Section 236 programs for low- and moderate-income families—were more than double the rate during earlier quarters of the recovery period, and they accounted for about 15 per cent of all multifamily starts.

Moreover, GNMA has issued about $2.8 billion of commitments to purchase below-market-rate, long-term mortgages for new FHA-insured multifamily rental projects based on a "tandem plan" initiated last year under the authority of the Emergency Housing Act of 1975, as amended. A total of $5 billion was released during 1976 for this tandem plan in the expectation that the funding would finance about 200,000 new units. The GNMA commitment to supply long-term financing provides the type of firm back-up that developers need to secure construction loans from private sources. In addition, the below-market contract interest rate of 7½ per cent on the mortgages enhances the profit potential of the rental projects.

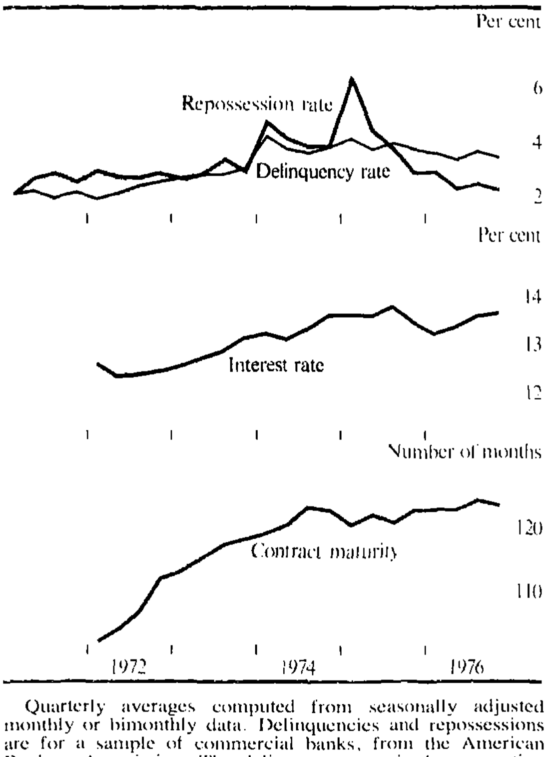
Various institutional adjustments have also been made to stimulate additional activity in the multifamily sector. For example, HUD recently introduced a co-insurance plan to enhance investor interest in the security issues of State home finance agencies. Also in 1976 the Federal Home Loan Bank Board granted Federally chartered savings and loan associations authority to use variable-rate mortgages in financing multifamily—as well as commercial—properties. In addition, attempts have been made by both the FHLMC and the Federal National Mortgage Association to develop a broader secondary market for conventional multifamily mortgages. In particular, the FHLMC recently instituted a program whereby it makes commitments, in advance, to buy such mortgages from private financial institutions.

The Tax Reform Act of 1976, passed in September, appreciably limits the availability of tax shelters that had provided inducements to investors to accept the risk of rental property ownership. Accelerated depreciation on apartment structures must now be treated as ordinary income when the property is sold—as is true for other types of income properties. However, partly in recognition of the special problems being faced by multifamily real estate, some of the tax reform changes have been deferred. For example, the requirement that investors in multifamily projects capitalize interest and tax payments incurred during the construction period and amortize these costs over a period of years will not become fully effective for some time.

MOBILE HOMES

Manufacturers' shipments of mobile homes to dealers and developers have turned modestly higher since mid-1975, following a sharp decline from a 650,000-unit annual rate early in 1973 to a 200,000-unit rate in the second quarter of 1975. Part of this drop in shipments had reflected a downward adjustment in dealers' inventory positions after a large build-up. Indications are that the modest recovery in mobile home shipments during the past year and a half has been associated with a roughly similar uptrend in sales.

11. Mobile home financing



Quarterly averages computed from seasonally adjusted monthly or bimonthly data. Delinquencies and repossessions are for a sample of commercial banks, from the American Bankers Association. The delinquency rate is the proportion of the number of mobile home loans outstanding that are 30 days or more past due. The repossession rate is the number of units repossessed, at an annual rate, as a proportion of the number of loans outstanding. "Interest rate" and "contract maturity" are for finance companies reporting directly to the F.R. Interest rates are annual percentage rates as defined by Regulation Z.

CREDIT CONDITIONS

Limited availability of financing has constrained sales of mobile homes during the current economic recovery period. As in the case of the multifamily sector, this constraint reflects problems inherited from the prior boom. In 1974 credit conditions tightened considerably as the economic recession deepened and loan delinquencies and repossessions of financed units rose. Although repossession rates have declined significantly since early 1975, delinquency rates have remained at advanced levels.

In this environment, average interest rates on conventional loans to finance purchases of mobile homes have held around the highs reached in mid-1975. Moreover, average contract maturities—which had lengthened considerably earlier in the 1970's—and average loan/value ratios have changed little. Apparently more stringent credit standards have also been applied in granting new loans for the purchase of mobile homes. Both commercial banks and finance companies, which together account for about three-fourths of total mobile home credit outstanding, have experienced a net contraction in their holdings of such loans during the past 2 years.

NONFINANCIAL FACTORS

In addition to the credit factors that have tended to limit sales of mobile homes, the sluggishness of the recovery in this sector of housing has reflected several important nonfinancial developments. These have included continued high unemployment among younger and lower-income households—population segments that typically are most likely to consider purchase of mobile homes. Moreover, upgraded construction and safety standards adopted in recent years, as well as higher site costs, have added further to the dollar outlays required of buyers. Zoning restrictions, environmental considerations, and the limited availability of suitable sites have also continued to be problems.

Adjustments in Government-Underwritten Loan Arrangements

A number of changes in Government programs have been introduced that may help increase mobile home activity further over the period ahead. For example, to facilitate buyer use of low-downpayment FHA financing under conditions of rising prices, in 1976 HUD increased the limits for FHA-insured mobile home loans to $12,500 for single-width units and to $20,000 for those that are made up of two or more modules. Moreover, the VA raised its maximum guaranty for mobile home loans to 50 per cent from 30 per cent, and early this year such loans were made eligible for pools backing issues of GNMA-guaranteed securities. HUD also revised its Title I loan program for mobile homes to cover both the housing units and the lots they occupy, and it made those loans on mobile homes that are purchased with a lot eligible for subsidy under the Section 235 program.

* * *

All aspects of homebuilding—the production of mobile homes, additions and alterations to existing housing, and the construction of new conventionally built dwellings—have contributed in some degree to the upswing in expenditures on housing. As measured in the national income and product accounts, residential investment expenditures also reflect a relatively large amount of income in the form of sales commissions on the extremely large number of transactions in new and existing homes at higher prices. By early 1977 the current-dollar value of this expenditures component, taken as a whole, had already increased on the order of $35 billion from its low 2 years earlier; in constant-dollar terms this represented an expansion of more than 50 per cent. Given the momentum of the rise in housing starts, as well as the strength of financial and nonfinancial forces helping to sustain this rise, the upswing in residential investment is likely to contribute further to the evolving recovery in the general economy.

Treasury and Federal Reserve Foreign Exchange Operations

This 30th joint interim report reflects the Treasury–Federal Reserve policy of making available additional information on foreign exchange operations from time to time. The Federal Reserve Bank of New York acts as agent for both the Treasury and the Federal Open Market Committee of the Federal Reserve System in the conduct of foreign exchange operations.

This report was prepared by Alan R. Holmes, Manager, System Open Market Account, and Executive Vice President in charge of the Foreign Function of the Federal Reserve Bank of New York, and by Scott E. Pardee, Deputy Manager for Foreign Operations of the System Open Market Account and a Vice President in the Foreign Function of the Federal Reserve Bank of New York. It covers the period August 1976 through January 1977. Previous reports have been published in the March and September BULLETINS of each year beginning with September 1962.

During the August 1976–January 1977 period under review, market participants remained sensitive to the possibility of further sharp rate movements for major currencies as wide disparities in economic performance persisted among industrial countries. With the pace of economic expansion slowing in several countries during the summer and early fall, many traders became concerned that individual governments might not succeed in achieving greater price stability and payments equilibrium in the face of historically high unemployment rates and mounting political pressures to stimulate domestic demand.

Consequently, as the market sought to anticipate both economic developments and possible policy changes, swings in sentiment generated large-scale shifts of funds into and out of some currencies. Among those that had weakened early in 1976, the pound sterling and the Italian lira came under renewed pressure, while other currencies—such as the Mexican peso and the Canadian dollar—were also heavily on offer at various times during the period. Meanwhile, speculation over a realignment within the European Community (EC) currency arrangement put the "snake" margins under renewed pressure. And the Japanese yen was also subjected to reversals in market assessment.

The authorities of several countries moved to

1. Federal Reserve reciprocal currency arrangements

In millions of dollars

Institution	Amount of facility, Jan. 31, 1977
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Swiss francs/dollars	600
Other authorized European currencies/dollars	1,250
Total	**20,160**

2. Federal Reserve System activity under its reciprocal swap lines

In millions of dollars equivalent

Transactions with	System commitments, Jan. 1, 1976	Drawings, or repayments (–)					System commitments, Jan. 31, 1977
		1976				1977	
		Q1	Q2	Q3	Q4	Jan.	
National Bank of Belgium	297.6	86.5	83.7	100.0	27.4	..	..
German Federal Bank	...	133.9 -26.4	107.5	...	14.9 ...	... 14.9	..
Netherlands Bank	..	19.6 19.6	...	...	...	.	..
Swiss National Bank	567.2	[1]600.0 20.0	..	...	[2]-1,147.2	..	...
Bank for International Settlements (Swiss francs)	600.0 ...	... [1]600.0	..	..	...	...	..
Total	**1,464.8**	**753.5** **752.6**	**191.2**	**100.0**	**14.9** **1,174.6**	**14.9**	...

[1]Consolidation of Swiss franc debt.
[2]The Federal Reserve repaid the outstanding $1,147.2 million equivalent of its pre-August 1971 Swiss franc swap indebtedness and took down the same amount of the newly created special swap line designed to refund the short term obligation into a medium-term obligation, which is being reduced as drawings are repaid over a 3-year period (see Table 3).
NOTE.—Discrepancies in totals are due to rounding.

bring about internal and external balance in their economies and to restore order in the exchange markets. The U.K. authorities adopted a program of fiscal and monetary restraint tied to agreement on important medium-term credits. These included a $3.9 billion standby arrangement with the International Monetary Fund (IMF) and a $3 billion arrangement with the major central banks and the Bank for International Settlements (BIS) to deal with official sterling balances. The governments in France and Italy also introduced broad-based stabilization programs, including fiscal and monetary measures and direct controls. In late October the governments participating in the snake arrangement agreed on a parity realignment in which the German mark was adjusted upward by 2 to 6 per cent against its partner currencies. Although many disparities in economic performance remained in early 1977, these various corrective measures were interpreted by the market to be steps in the right direction and therefore helpful in alleviating many of the tensions in the exchanges.

During the period, the dollar was again caught up in the crosscurrent affecting the European markets. But in addition, sentiment toward the dollar shifted in response to the pause in the U.S. recovery, which spurred a gradual reassessment of the outlook for interest rates. As U.S. short-term interest rates declined while comparable rates elsewhere held steady or advanced somewhat, the narrowing in interest rate differentials prompted flows out of dollars. At times, other uncertainties—over the U.S. election, over our widening trade deficit, and over a potentially large Organization of Petroleum Exporting Countries (OPEC) price hike—had an adverse effect on market psychology.

By early January 1977 the dollar had therefore declined by some 10 per cent from late-July levels against the German mark and the other currencies linked to it. Much of the dollar's decline was gradual and trading in New York was generally orderly. But on those days when the market became unsettled, the Federal Reserve countered with moderate offerings of marks to stabilize trading conditions. Thereafter, however, the market's attitude toward the dollar was buoyed by economic indicators that suggested the U.S. economy was picking up steam once again, and by a reversal in interest

3. Federal Reserve System drawings and repayments under special swap arrangement with the Swiss National Bank

In millions of dollars equivalent

Transactions with	System swap commitments, Jan. 1, 1976	Drawings, or repayments ( ) 1976 Q1	Q2	Q3	Q4	1977 Jan.	System swap commitments, Jan. 31, 1977
Swiss National Bank	...	...	...	...	1,147.2 96.2	58.4	992.5
Total	...	..	..		**1,147.2** **96.2**	**58.4**	**992.5**

NOTE. Discrepancies in totals are due to rounding. Data are on a value date basis with the exception of the last two columns that include transactions executed in late January for value after the reporting period.

differentials as U.S. rates firmed while those abroad eased. The dollar then came into demand and firmed against the main continental currencies through the end of January.

In exchange-market intervention during the August 1976–January 1977 period, the Federal Reserve sold $175.6 million equivalent of marks, of which $160.7 million was from balances acquired before and during the period and $14.9 million was drawn in December under the swap line with the German Federal Bank. That swap drawing was quickly repaid in January when the dollar's buoyancy enabled the System, by purchases in the market and from correspondents, to rebuild balances once again. In all, the System bought $205.0 million of marks during the 6-month period.

Moreover, pursuant to an agreement in late October between the U.S. authorities and the Swiss National Bank for repayment in 3 years of Federal Reserve and U.S. Treasury debt in Swiss francs outstanding from August 1971, the System repaid $154.6 million equivalent and the Treasury repaid $86.1 million equivalent through the end of January. Most of the francs were purchased directly from the Swiss National Bank against dollars. But in addition, $7.9 million of Swiss francs were acquired from correspondents, while additional francs were bought from the Swiss National Bank against the sale of $48.1 million equivalent of German marks, $4.8 million of French francs, and $.04 million of Dutch guilders. The marks and French francs came from balances acquired in the market during the period, while the guilders came from existing holdings. Finally, by November, using Belgian francs acquired from correspondents and in the market, the Federal Reserve liquidated the last $82.4 million equivalent of swap debt to the National Bank of Belgium outstanding since August 1971.

Also during the period, the Bank of England drew in September a further $100 million each on the Federal Reserve and U.S. Treasury that was in proportion to British drawings on other participants in the June 1976 standby credit facility. Total drawings on the System and the Treasury were thereby increased to $300 million each. These drawings were repaid in full at their maturity when the facility terminated on December 9, along with drawings on other participants. The Bank of Mexico repaid an earlier swap drawing of $360 million on the Federal Reserve and drew a further $150 million, which it arranged to repay at maturity in February. The Bank of Mexico also drew and repaid a total of $365 million under a special short-term credit facility initiated in September with the U.S. Treasury. In addition, that central bank subsequently drew a further $300 million under the

4. Drawings and repayments on Federal Reserve System by its swap partners

In millions of dollars

Banks drawing on System	Drawings on System Jan. 1, 1976	Drawings, or repayments (–) 1976 Q1	Q2	Q3	Q4	1977 Jan.	Drawings on System Jan. 31, 1977
Bank of England	...	..	200.0 ...	100.0 ..	... 300.0	..	..
Bank of Italy	...	500.0 ...	... ...	... 500.00	...	...	...
Bank of Mexico	...	..	360.0	...	150.0 360.0	...	150.0
Bank for International Settlements (against German marks)	...	...	14.0 14.0	37.0 37.0	...	...	...
Total	...	**500.0**	**574.0** **14.0**	**137.0** **537.0**	**150.0** **660.0**	...	**150.0**

Exchange Stabilization Agreement, of which $150 million was outstanding at the end of January 1977.

GERMAN MARK

During most of early 1976 the exchange markets were bullish for the German mark. By that time, the economy was expanding smartly. Export growth continued strong enough to keep Germany's trade and current accounts in substantial surplus even though imports were on the rise. And Germany's rate of inflation, at around 5 per cent per annum, remained one of the lowest among industrial countries and was continuing to moderate. This picture contrasted sharply with that for many of Germany's trading partners in Europe where more rapid economic activity was leading to a deterioration in current-account balances and upward pressure on wages and prices. Although by early summer the markets had settled down somewhat after the strains of January–March, expectations remained that sooner or later the mark would appreciate against the currencies of other European countries with significantly higher rates of inflation. Thus, the mark held firm at the ceiling of the EC band, while the other currencies in the arrangement remained clustered near the bottom.

Meanwhile, against the dollar, the mark leveled off below $0.3900 in the late spring and early summer, as the market considered the German and U.S. economies to be broadly in phase, even to the extent of entering the pause in growth at roughly the same time. Traders nevertheless remained concerned that changing money market conditions might at any time generate a reversal of the heavy volume of funds German banks had previously placed abroad in dollars and other currencies. Moreover, persistent expectations of a mark revaluation against the other EC currencies sometime before or after the German general elections in early October left traders poised to buy marks at the first sign that it was strengthening once again.

Against this background, market speculation over a realignment within the snake was quickly reignited when sizable orders to buy marks triggered a sharp rise in the spot rate in late July. The mark moved quickly to its upper intervention limit against several of the other snake currencies. There it came under recurrent waves of heavy demand during August, as dealers built up mark positions and commercial leads and lags shifted in Germany's favor. The German Federal Bank and the other snake central banks intervened forcefully in one another's currencies to keep their exchange rates within the prescribed limits. At the same time the dollar again became caught up in the pressures of the

5. U.S. Treasury securities, foreign currency series

In millions of dollars equivalent

Period	Swiss National Bank	Total
	Commitments	
Jan. 1, 1976	1,599.3	1,599.3
	Issues, or redemptions (–)	
1976–Q1	..	...
Q2	...	...
Q3	...	..
Q4	53.6	53.6
Jan. 1977	32.6	32.6
	Commitments	
Jan. 31, 1977	1,513.1	1,513.1

NOTE. Data are on a value date basis with the exception of the last two items, which include transactions executed in late January for value after the reporting period.

snake, and, as the mark strengthened, the German Federal Bank purchased sizable amounts of dollars in Frankfurt. To maintain orderly conditions in New York, the Federal Reserve followed up by selling $15.9 million equivalent of marks from balances on August 16–17, the System's first intervention sales since March.

By September in the wake of the large-scale official intervention and monetary measures taken in Europe, the immediate pressures within the snake had temporarily tapered off. But sentiment toward the mark remained bullish. Reports of increased foreign orders on top of an already large trade surplus for July provided an optimistic outlook for Germany's future trade performance. In addition, reports suggesting a continued pause in the U.S. recovery generated expectations of a protracted decline in U.S. money market rates while German rates were expected to hold steady or rise somewhat. Moreover, as sterling dropped sharply in the exchanges early in September, the shift of funds out of sterling into marks magnified the demand for the German currency all the more. Consequently, the market remained fearful that speculation could resurface at any time and that Germany's exchange-rate policy might once more emerge as a campaign issue in the closing days of a close contest for the upcoming general elections. As a result, trading remained nervous, the German Federal Bank made further large purchases of dollars, and the Federal Reserve sold a further $16.3 million equivalent of marks in New York on 2 days, September 16 and 24.

With the approach of the October 3 German elections, the mark came into renewed speculative demand late in September. The snake again became fully extended and the German Federal Bank intervened heavily, along with other participating central banks, to maintain the limits. As these tensions resurfaced, the mark also advanced against the dollar following news of another large U.S. trade deficit and of a decline in leading economic indicators announced for August.

After the election, no parity changes were announced, but the market was kept on edge by persistent talk about the possibility of a mark revaluation. Thus, the mark remained in demand through midmonth, advancing to $0.4117, more than 6 per cent above the levels of late July. The Federal Reserve sold an additional $20.9 million equivalent of marks from balances when trading became unsettled in New York on October 5–6. Meanwhile, the German Federal Bank purchased dollars to moderate the mark's rise. Intervention in snake currencies and in dollars was largely responsible for the $2.8 billion increase in German reserves during the 3 months, July–October.

On Sunday, October 17, the EC finance ministers and central bank governors meeting in Frankfurt agreed on a realignment of parities within the joint float to avoid a repetition of the speculative pressures of previous months. The German authorities announced a 2 per cent revaluation of the mark, which, together with the parity changes by Scandinavian members of the EC monetary arrangement, resulted in a parity adjustment of 2 per cent to 6 per cent between the mark and other snake currencies.

After some initial hesitancy in the market, the mark soon dropped to the bottom of the realigned joint float, and, against the snake currencies, it began to trade below levels prevailing before the realignment was announced. By the end of October a substantial unwinding of commercial leads and lags was under way. The other central banks participating in the EC monetary agreement quickly took advantage of these reflows to buy marks in the market to repay their indebtedness stemming from previous interventions. These official purchases of marks also had the effect of absorbing some of the liquidity created in Germany as a result of the huge currency inflows of preceding months. To bring the pace of monetary expansion back closer to the target levels for 1976 as a whole, the Federal Bank reinforced the process by selling large amounts of German Government securities in the open market.

As a result, the mark did not ease against the dollar as it did against other snake currencies but rose to around $0.4150. In general though, trading was well balanced from the time of the EC realignment to mid-November. Only infrequently did particularly large demands for marks come into the market in a way that put pressure on the mark during the New York trading day. In particular, the mark became well bid on October 19 and 26, in response to heavy shifts out of sterling, and on November 22 following publication of disappointing economic indicators for the United States. On these occasions of market unsettlement, the Federal Reserve offered marks, selling a total of $22.9 million equivalent from balances. At other times the Trading Desk was able to purchase modest amounts of marks for System balances mostly from correspondents but also in the market when trading was quiet.

Over the rest of the year, however, the market became increasingly sensitive to the relative progress of the economic recoveries in Germany and the United States. Reports of a steep rise in German industrial output in October gave rise to expectations that money market conditions in the two countries would continue to diverge. To the market, these expectations seemed to be confirmed by the ¼ percentage point cut in Federal Reserve discount rates on November 19 and a technical reduction in reserve requirements announced on December 17. These moves contrasted with the German Federal Bank announcement of an 8 per cent target for the growth of central bank money in 1977—a target interpreted as restrictive in view of the much more rapid growth of the preceding months. As a result, interest differentials favorable to the dollar were squeezed out by early December. At the same time, the possibility of a sizable hike in oil prices at the upcoming OPEC talks weighed on the dollar.

Thus, the mark was in demand throughout December, and this demand intensified as German banks sought to satisfy year-end needs by acquiring marks in the exchange market. Most of this bidding for marks was concentrated during the European trading day and, to provide resistance to a cumulative rise in the mark rate, the Federal Bank bought substantial amounts of dollars in Frankfurt. When these pressures spilled over into the New York market, the Federal Reserve followed up with sales of marks on 4 days during December, for a total of $74.5 million equivalent. Of this, $59.6 million equivalent was financed from System balances and $14.9 million equivalent was drawn under the swap arrangement with the German Federal Bank. Nevertheless, the mark had firmed to $0.4249 by the end of the year, a rise of 3½ per cent since the snake realignment of October 17.

With the dollar declining, dealers had tended to ignore several recent reports pointing to a pick-up in U.S. economic activity—a substantial increase in November's leading economic indicators, a surge in durable goods orders, and strong Christmas retail sales. Instead, after the passing of the year-end and particularly in the light of the mark's recent strength, market professionals began building new long-mark, short-dollar positions on the expectation that U.S. interest rates would go still lower and that the U.S. trade deficit would worsen this year while Germany's trade surplus would increase. Consequently, the mark extended its advance against the dollar, reaching $0.4274 in Europe on January 4, fully 10¼ per cent above levels in late July 1976. To avoid an even sharper rise, the Federal Bank made sizable dollar purchases. The Federal Reserve followed up by selling $7.3

million equivalent of marks out of balances before the market turned around.

The shift in sentiment in favor of the dollar followed wire service reports of a 1 per cent fall in German industrial production in November. In addition, after the liquidity pressures of the year-end had passed, German short-term interest rates began to ease. Consequently, the mark began to move back on some professional covering. The decline soon gathered momentum as U.S. interest rates edged somewhat higher, as the market reacted favorably to the incoming Carter administration's fiscal stimulus proposals, and as substantial amounts of funds flowed out of marks back into sterling.

By late January the mark eased back 4 per cent to \$0.4101. In cushioning the mark's decline, the Federal Bank sold modest amounts of dollars in Frankfurt while the Federal Reserve bought \$90.1 million equivalent to repay in full its recent swap drawing and to replenish System balances. On January 31, however, widespread publicity about the disruptive economic effects of severe winter conditions in the United States triggered a burst of demand for marks and other European currencies, and the Federal Reserve sold \$17.8 million equivalent of marks from balances to stabilize trading conditions. The mark thus closed the period at \$0.4157, some 7¼ per cent above levels in late July 1976. Meanwhile, by the end of January 1977 German reserves had fallen by \$1.3 billion from the peak at the end of October 1976 for a net rise of \$1.5 billion since July 1976.

STERLING

For some time the British economy has been plagued by one of the highest inflation rates in Europe, disappointingly slow economic growth, and a persistently large deficit in its balance of payments. To address these underlying problems, during the spring of 1976 the authorities successfully secured trade union agreement to a second 1-year phase of wage restraint in exchange for some tax relief. For the longer term, the government announced a shift in priorities toward stimulating key industries and away from broad social welfare programs, while seeking to restrain both public and private consumption to make room for export growth.

But the delicate balance upon which the government's strategy for gradually achieving economic stability rested was brought into question last spring. Between March and early June, the pound fell by more than 15 per cent to \$1.7065 against the dollar and nearly 12 percentage points to 41.9 per cent below the December 1971 Smithsonian agreement level on an effective basis against the major currencies. This drop left the market badly shaken.

Following announcement of a \$5.3 billion package of standby credits from the Group of Ten countries plus Switzerland and the BIS, the pound recovered some 4 per cent from its June low to trade between \$1.77 and \$1.78. The market nevertheless remained volatile, and the British authorities continued to intervene at times in sizable amounts. To replenish reserves, the Bank of England drew late in June \$1.03 billion on the standby facility, including \$200 million under the Federal Reserve swap line and \$200 million from the U.S. Treasury's Exchange Stabilization Fund.

During the summer the sterling market was in better balance, with the spot rate still above \$1.77, until latent uneasiness about Britain's economic prospects resurfaced in late August. The immediate catalyst for reassessment was the highly publicized water shortage in Britain, resulting from a record drought, which raised the possibility of cutbacks in production and employment in several parts of the country. And by then the evident pause in other industrial economies had dimmed hopes that the United Kingdom would be pulled out of recession by rising export demand. At home the economy was stagnant, unemployment was still increasing, and the inflation rate was beginning to edge upward again, in large part because of spiraling import costs. In addition, the market focused increasingly on the size of Britain's large public sector deficit—even after the government's announcement in July of planned cutbacks in government expenditures for the next fiscal year—as well as on the potential threat of a ballooning in the money supply should the debt not be financed through sales of government bonds. The aggregates already had increased rapidly in July, and this was seen not only as a potential source of inflation but also as an indication of large-scale British financing of adverse leads and lags against sterling.

In the face of these various uncertainties, the pound came on offer again in late August. Market sentiment soured further over subsequent weeks on reports of strikes and wage demands beyond the bounds of the government's incomes policy, as well as in reaction to official figures showing a reduction of 905 million pounds in foreign official holdings of sterling balances in the second quarter. In response, sizable commercial selling (including outflows to finance third-country trade), several large "sell" orders thought to have been from the Middle East, and outright dealer positioning against sterling weighed heavily on the pound. At first, the Bank of England provided substantial support to keep the pound around the $1.77 level. But when the selling pressure persisted, the authorities cut back on intervention to conserve official reserves. Instead, the Bank of England hiked its minimum lending rate by 1½ percentage points to 13 per cent, issued a call for special deposits to drain bank liquidity, and announced a new long-term government bond issue yielding close to 15 per cent.

Nevertheless, heavy commercial and professional selling continued, and by late September the pound had been pushed down to nearly $1.70. At that point the Labour Party's annual conference provided a platform for sharp criticism of the government's planned public expenditure cuts as well as for demands for import controls to protect British jobs. Following widespread press coverage of these disputes, the pound came under further pressure and was driven below $1.70. Once the rate moved through this benchmark without meeting any market resistance, the slide quickly gathered momentum, and by September 28 the rate had plunged to a low of $1.6320 before steadying somewhat.

To "buy time for the market to give a more positive assessment of government economic policy," Chancellor Healey announced on September 29 that Britain intended to apply for $3.9 billion in further credits from the IMF to repay borrowings under the June $5.3 billion standby credit facility scheduled to expire December 9. Also, to offset recent reserve losses, the British authorities again drew on the standby facility, obtaining another $100 million each from the Federal Reserve and the U.S. Treasury--amounts that were in proportion to drawings on other countries participating in that facility. Shortly thereafter, the authorities moved further to tighten liquidity and to drive up the cost of financing short sterling positions. The Bank of England raised the minimum lending rate another 2 percentage points to an unprecedented 15 per cent, called a second round of special deposits to absorb more liquidity, and operated forcefully in the market for short-dated swaps.

These policy initiatives drew favorable comments both in the market and from foreign government officials. In addition, the resulting squeeze in the domestic and Euro-sterling money markets helped the pound to steady at around $1.65 during early October. Nevertheless, sterling's 7 per cent depreciation from the $1.77 level left the market fearful that pressure could re-emerge at any time. In addition, a disagreement within the Labour Party over the degree of restrictiveness the government should accept in negotiating terms and conditions of the IMF loan introduced another layer of uncertainty into the market.

In this atmosphere, a London newspaper article—alleging that the IMF and the U.S. Treasury had proposed that the pound be allowed to depreciate to $1.50 as a precondition for IMF credit—touched off widespread selling of sterling as soon as markets opened on Monday, October 25. Even though the report was firmly denied by IMF, U.S., and British officials, the pound dropped precipitously, declining almost 5 per cent in early trading. In an attempt to restore order in the market, the Bank of England intervened forcefully. But this quick and unprecedented plunge in the rate left the market thoroughly confused over the appropriate level for sterling and kept the pound vulnerable to every rumor or press report about the IMF loan conditions.

Thus, when reports came over the news services that the Labour Party National Executive had voted to oppose further cuts in public spending, the pound fell to a record low of $1.5550 on the morning of October 28. At this level, the pound had sunk some 13 per cent below the end-of-July levels and to 48.8 per cent on a trade-weighted average basis. Meanwhile, during the 3 months to the end of October, reserves dropped over $600 million, even after the $515 million of drawings on the June standby facility and the receipt of more than $500 million in public sector borrowings abroad.

By early November, however, the pound had bounced back above $1.60, following the first reports that negotiations might be under way with Germany, Japan, and the United States for major new credits to deal with the problems of official sterling balances. The pound then advanced to the $1.65 level by midmonth in a turnaround that was triggered in part by new moves by the government to curb outflows and credit expansion. In particular, on November 19, the authorities sealed off a gap in exchange-control regulations, through which sizable amounts of funds had flowed out during the summer, by restricting the use of the pound in financing third-country trade—a measure expected to generate a substantial reflow over the subsequent 6 months. In addition, the Bank of England reintroduced the supplementary deposit scheme—the so-called "corset" regulation—whereby banks place with the central bank a rising proportion of the increase in interest-bearing deposit liabilities above specified levels.

The pound's turnaround in November also reflected growing market expectations that the government was reaching an accommodation over the terms of a new IMF package, even if that were to involve severe fiscal restraints. As the market awaited the announcement of new budgetary measures, these expectations solidified and sterling advanced to $1.6857 by December 15, while the Bank of England bought dollars in the market to moderate the rise. In the budget message that day, the Chancellor announced cuts in public spending over the next two fiscal years, an increase in indirect taxation, and the sale of part of the British government's holdings in British Petroleum—measures expected to reduce the public sector borrowing requirement as a share of gross domestic product from 9 to 6 per cent for the 1977–78 fiscal year.

The Chancellor also revealed targets for domestic credit expansion over the next 3 years that would meet IMF conditions for keeping a tight rein on monetary expansion. In addition, to prefinance IMF drawings, he announced standby swap facilities of $350 million with Germany and of $500 million with the United States (of which the Federal Reserve and the Exchange Stabilization Fund would each provide $250 million). Finally, he indicated that there was a general desire among the major countries to achieve a satisfactory arrangement for the sterling balances.

After some initial hesitancy in the market, the pound was buoyed by an extreme shortage of funds in the London money market that was only partially alleviated by the Bank of England. As settlements for the growing sales of British Government gilt-edged securities drained liquidity from the banking system just before the year-end, the banks bid for balances in the exchanges. In addition, some fairly sizable commercial orders came into the market, also for year-end purposes or for covering open positions taken up earlier in the year. Accordingly, the rise in the pound gradually accelerated during December, and the rate reached $1.7080 by the month-end, some 10 per cent above its late-October low. Meanwhile, the Bank of England repaid, upon maturity, its drawings of $300 million each on the Federal Reserve and the Exchange Stabilization Fund as part of its total $1,545 million repayment of outstanding credits on the standby facility. Partly as a result, British reserves fell to $4.1 billion by the year-end, their lowest level in 6 years.

In early January, announcement of the IMF's official approval of the $3.9 billion loan to Britain further reassured the market. Moreover, following discussions in Paris and Basle, the central banks of the major industrial countries reached agreement on a plan to deal with the sterling balances. Under this plan, 11 countries (the United States, Germany, Japan, Switzerland, Belgium, the Netherlands, Canada, Austria, Sweden, Norway, and Denmark) would provide up to \$3 billion to the BIS to back up British drawings for financing net reductions in official sterling holdings below December 1976 levels. Of this, the Federal Reserve and the U.S. Treasury would provide \$1 billion. For their part, the British authorities would offer medium-term, foreign-currency-denominated securities to official holders to fund part of the total sterling balances and to achieve an orderly reduction in the reserve currency role of the pound. The Managing Director of the IMF was also requested to assist in the implementation of the agreement.

Announcement of these agreements early in January triggered a sharp jump in the sterling rate to as high as \$1.7350, before it subsequently leveled off at about \$1.7150. Then, the long process of reversing previously adverse commercial leads and lags and of unwinding sterling credits used in third-country trade financing generated a steady demand for sterling. At the same time, British interest rates moved progressively lower, as reflected in the six cuts in the Bank of England's minimum lending rate from the 15 per cent level of mid-November to 12¼ per cent on January 28. In addition, the central bank scaled back its earlier calls for special deposits. Under these circumstances, prospects of capital gains spurred some flows of foreign funds into British securities.

Late in the month the authorities announced a \$1.5 billion Euro-dollar loan with a syndicate of European and North American commercial banks, which gave a further boost to the pound. As a result, spot sterling traded firmly during January while the Bank of England took the opportunity to buy dollars in the market and to rebuild its official reserve position. At \$1.7149 by month-end the pound was up 10½ per cent from its October low and was only 4 per cent below late-July 1976 levels. On a trade-weighted average basis, sterling's depreciation since the 1971 Smithsonian agreement had narrowed 6 percentage points from the record low reached in October to 42.8 per cent, compared with 38.8 per cent at the end of July 1976. Meanwhile, the Bank of England's large-scale purchases of dollars in January had, along with the initial takedown on Britain's IMF standby, contributed to a \$3.1 billion increase in reserves for the month. As a result, Britain's foreign exchange reserves stood at \$7.2 billion on January 31, \$1.8 billion more than 6 months before.

SWISS FRANC

During the first half of 1976, the Swiss franc was propelled progressively higher against all major currencies. Switzerland's inflation rate declined to about 3½ per cent, the lowest among the industrial countries, while an unprecedented trade surplus swelled the Swiss current-account surplus to nearly 10 per cent of GNP. Moreover, large amounts of funds were drawn into francs as market participants sought protection against the severe uncertainties plaguing many other European currencies at the time. At home, however, the Swiss economy was stagnant, with over-all economic activity only a little higher than at the trough of the 1975 recession. While the appreciation of the franc helped to reduce import costs significantly, it also led to a deterioration of profitability in Switzerland's export industries and in turn exerted a drag on investment.

Consequently, the Swiss authorities moved to limit the franc's rise in the exchanges. They intervened to buy large amounts of dollars, both in Zurich and through the Federal Reserve Bank of New York, offsetting enough of these purchases with sales to foreign borrowers, who were required to convert the proceeds of their borrowings in Switzerland with the central bank, to avoid jeopardizing the monetary target for the year. In addition, the Swiss authorities imposed additional exchange controls, restricting the importation of large foreign bank notes in April and adopting quotas in June to curtail forward sales of Swiss currency to nonresidents while entering into a gentleman's agreement whereby Swiss banks would refrain from accepting franc deposits abroad. Moreover, the Swiss National Bank reduced its discount and Lombard rates to the lowest levels in 10 years to bring down domestic interest rates, and it indicated a willingness to continue to provide temporary liquidity through dollar swaps with the commercial banks to maintain a comfortable money market.

By late July these various measures had begun to take effect. The Swiss franc eased back 5¼ per cent from its peak levels of early June to $0.3981, while slipping some 5½ per cent lower against the German mark. In contrast to previous periods of turbulence in the exchanges, trading in Swiss francs remained relatively quiet as renewed tensions built up in the EC snake during August. Now that interest rates in Switzerland were well below those elsewhere in Europe and were expected to decline further as the Swiss authorities pursued their accommodative monetary policy, funds flowed increasingly back out of francs into marks.

In addition, a move into deficit in the trade accounts during the summer led some market participants to question whether Switzerland would continue to show the unusually strong trade performance of recent months. As a result, the franc gradually dropped back against the mark throughout the fall, declining by some 4 per cent between the end of July and late November. Against the dollar, however, the franc was pulled up by the rise of the mark to trade around $0.4100 through late November with the National Bank intervening frequently to moderate daily movements in the rate.

By late 1976 the Swiss economy was still failing to show any signs of expansion. The continued softness in domestic demand was reflected in a further reduction in inflation to just 1 per cent at an annual rate, its lowest since the mid-1960's. The current account remained in large surplus, totaling some $3.5 billion for the year as a whole. In the absence of any upward pressures on domestic prices and with growth in the monetary base lagging, the Swiss authorities stepped up their efforts to provide liquidity to the banking system. While continuing to accommodate the banks' temporary needs with large amounts of dollar swaps, the National Bank announced that it was prepared to inject substantial Swiss francs on a permanent basis through dollar purchases in the exchange markets. Over November–December, these outright purchases amounted to nearly $2 billion, well in excess of the dollar sales under the capital export conversion program.

As a result, the Swiss franc continued to drop back further against the German mark and other European currencies while trading narrowly against the dollar. Then in January 1977, with economic stagnation in Switzerland contrasting sharply with the improved outlook emerging in the United States, the franc eased back in the generalized decline of European currencies against the dollar to end the period at $0.3990. At this level, from the record highs of June 1976, the franc had declined by a net 5 per cent against the dollar and fully 11¾ per cent against the mark.

In October the Federal Reserve and the U.S. Treasury reached agreement with the Swiss National Bank on an orderly procedure to repay over 3 years the Swiss franc indebtedness remaining from August 1971. This included $1,147.2 million equivalent of drawings under the Federal Reserve swap line, as well as the $1,599.3 million equivalent of U.S. Treasury Swiss franc-denominated notes. In this connection the Federal Reserve's drawings on the original swap agreement with the National Bank were repaid on October 29, using Swiss francs drawn under a newly established special swap facility, which, in turn, will be reduced as the swap is repaid over the 3-year period.

The System then began to liquidate its obligations in accordance with the new arrangement, primarily using francs purchased directly from the Swiss National Bank against dollars and other foreign currencies. By the end of the period the Federal Reserve had repaid $154.6 million equivalent, leaving $992.5 million outstanding as of January 31, 1977. During this same period the U.S. Treasury purchased sufficient francs directly from the Swiss National Bank to repay $86.1 million equivalent of franc-denominated securities, leaving $1,513.1 million equivalent outstanding as of January 31.

FRENCH FRANC

Last year the French authorities faced particularly difficult policy choices. Although domestic demand had recovered briskly from the recession of 1974-75, this pick-up led to a greater rise in imports than in exports and a sharp widening of the current-account deficit. At the same time, domestic inflation continued to hover at a rate of nearly 10 per cent per annum, almost double that of countries such as Germany and the United States. Early in the year the franc came under heavy selling pressure within the EC arrangement on the expectation that sooner or later it would have to be adjusted downward within the EC snake or otherwise depreciated against the currencies of countries that had lower rates of inflation. In mid-March, when the governments participating in the arrangement failed to agree on a realignment of parities, the French authorities decided to allow the franc to float independently. Although the franc rate initially dropped by some 5¼ per cent, it subsequently settled at about 2 per cent below its previous EC parity and traded around $0.2125 against the dollar through early summer.

During the summer, however, France was hit by a severe drought, which threatened to push up food prices, cut agricultural exports, and increase oil imports to compensate for lost hydroelectric power. By that time also, the domestic economic expansion had slowed and, with rates of unemployment and inflation remaining uncomfortably high, the debate over economic policy choices in France had heated up considerably. Consequently, market concern over the outlook for the franc resurfaced, and in late July and early August the franc came under renewed selling pressure.

Although the authorities countered by sharply raising interest rates, the franc slipped back to a 2½-year low of $0.1986 by August 13, while easing a further 8 per cent against the EC snake currencies. The spot rate then steadied after the government indicated it was working on a new economic stabilization program. Following a cabinet reshuffle in late August the new Prime Minister, Raymond Barre, stressed his intention to give priority to curbing inflation and defending the franc. Consequently, trading quieted down and the rate rose to around $0.2030 through mid-September as the market awaited the new program.

On September 22 Prime Minister Barre announced a wide-ranging set of measures designed to balance the budget, to reduce the French inflation rate, and to restore equilibrium to the balance of payments. These measures included increases in income taxes to offset proposed reductions in value-added taxes and to finance aid to drought-stricken farmers. Moreover, to curb the cost of inflation, the government imposed a 3-month price freeze on most goods other than oil and called upon trade unions to keep 1977 wage increases within the anticipated rise of retail prices. At the same time the monetary authorities lowered ceilings and reactivated reserve requirements on bank lending in order to achieve a 12.5 per cent monetary growth target during the next year. Finally, to discourage further adverse shifts in commercial leads and lags while these longer-term measures were taking hold, the Bank of France hiked its discount rate a further 1 percentage point to 10½ per cent and imposed a modest tightening in foreign exchange controls.

The market's initial response was cautious, in part because of the potentially controversial nature of the tax increase and the call for wage restraint, and the franc was marked down somewhat. Over subsequent weeks, as strains emerged within France's ruling coalition of parties, the market atmosphere became more uncertain. In addition, talk of another large OPEC oil price increase in December raised concern that such a move would undercut France's domestic anti-inflationary effort and widen the trade deficit further. As a result, the franc came on offer during the late fall and early winter, with pressure particularly strong at times of tension within the EC snake or pressures on sterling. The franc held generally above $0.2000 vis-a-vis the dollar but declined, in parallel with the dollar, a further 6 per cent from mid-August against the mark and other EC snake currencies. To avert a steeper decline, the Bank of France kept a tight rein on domestic monetary conditions, thereby encouraging inflows of interest-sensitive funds by both nonresidents and French companies.

Late in the year signs of an improvement began to appear in the French economic outlook. The trade deficit narrowed significantly in response to a sharp decline in French imports. The OPEC oil price increase was not so large as feared. Moreover, the domestic price freeze clearly was containing the rise in price indexes. Although market sentiment toward the franc remained cautious, the closing-out of positions taken earlier in the year and a reversal of previously adverse commmercial leads and lags contributed to a 1 per cent rise in the franc rate before the year-end.

In early 1977 the market atmosphere improved even further. Several of the strikes that had been threatened in response to the anti-inflationary measures failed to materialize. The release of retail price figures showing a slowdown in the inflation rate in December for the third consecutive month confirmed to the market that the government's price and wage restraints, resting heavily on voluntary compliance, were proving more effective than many traders had expected. Moreover, although interest rates in France eased somewhat, they did not decline so much as in other financial centers, and the Bank of France did not join several other European central banks in lowering its official lending rate. Thus, the franc remained relatively firm throughout January, holding at $0.2012 against the dollar by the month-end, while recovering some 2 to 3 per cent against the German mark and other continental currencies. The Bank of France was therefore able to add to reserves, with the result that official exchange holdings rose a net $264 million during the August 1976–January 1977 period.

ITALIAN LIRA

The Italian lira was under severe pressure from the beginning of 1976, dropping as much as 26 per cent through early spring in response to deep-rooted economic and political strains in Italy. Recovery of the domestic economy, though still tentative, stimulated a rapid rebuilding of inventories, which, together with the rise in raw materials prices, swelled Italy's import bill and turned the trade account into deep deficit. In the political impasse that developed, moreover, fiscal policy remained expansionary, threatening to blunt the effectiveness of the restrictive monetary measures adopted during the spring to support the lira. To halt the slide of the rate in early May, the authorities therefore resorted to a set of tough foreign-exchange restrictions. The most important was a temporary 50 per cent deposit requirement on the lira countervalue of virtually all foreign currency purchases by Italian residents, which mopped up some $5 billion equivalent of domestic liquidity over the next 3 months and stimulated sizable capital inflows. Meanwhile, as efforts to reach a political compromise to deal with Italy's economic and social problems evaporated, new elections were set for late June.

The outcome of those elections, a narrow but clear-cut plurality for the Christian Democratic Party over the Communist Party, gave an immediate boost to market sentiment. Delicate political compromises had to be struck, however, and several weeks passed before a minority government under Prime Minister Andreotti was formed and confirmed by the Parliament. Meanwhile, until broader policy measures could be taken, the authorities maintained a squeeze on domestic liquidity by extending the import deposit requirement for a further 3 months. This squeeze continued to draw funds in from abroad, which, coupled with seasonally high tourist receipts and reversals of pre-election outflows, kept the lira firm around $0.001197 (835 lire). The Bank of Italy took advantage of the lira's buoyancy to absorb large amounts of dollars in the market. Using these acquisitions, that Bank not only repaid external indebtedness—including in late July the full $500 million drawn under the swap line with the Federal Reserve earlier in the year—but was able to add substantially to reserves. Although the pace of reflows began to slow late in August, the Bank of Italy was still able to repay $500 million of its $2 billion gold collateral loan with the German Federal Bank, while extending the arrangement itself for another 2 years.

By mid-September the Andreotti government had begun to negotiate the components of a stabilization program with various political factions. By that time, however, Italy's inflation rate was accelerating again, in part reflecting a surge in import costs. In response, the trade unions maintained their resistance to the government's efforts to slow wage increases by modifying or eliminating the cost-of-living indexation system. Meanwhile, the scheduled expiration of the import deposit requirement in November was approaching. The market was concerned that, as these deposits ran off, new liquidity would be injected into the money market at a time when the Italian Treasury was still borrowing heavily from the Bank of Italy to finance the public sector deficit. Also, with the tourist season over, many market participants were again expecting a deterioration of Italy's current account.

In this uncertain atmosphere a gradual buildup of commercial selling by Italian oil companies and other firms pushed the lira progressively lower in late September. In response, the Bank of Italy supported the lira in the market and the government arranged to phase out the import deposit requirement gradually over 6 months from November. In addition, the authorities imposed a ½ per cent levy on commercial bank deposits to reduce liquidity by 550 billion lire. Nevertheless, as speculative pressure in other European markets broadened to envelop the lira, the spot rate fell off to a low of \$0.001146 (873 lire), down 4¼ per cent from late July.

To check this pressure on the lira while the government completed negotiating its package of economic stabilization measures, the authorities imposed a temporary 10 per cent tax, effective October 1–15, on most resident foreign currency purchases to supplement the import deposit requirement still in force. In addition, they hiked the discount rate a full 3 percentage points to 15 per cent and raised cash financing requirements on exports invoiced in foreign currencies from 30 per cent to 50 per cent. In response, the spot rate was immediately marked up by as much as 4 per cent to trade at \$0.001190 (840 lire).

On October 13 the government announced its proposals for increased taxes and sizable public spending cuts for 1977. In addition, regulated prices for gasoline and for many public services were increased, while cost-of-living-linked wage increases for certain high income groups were ordered to be invested in government securities. The market response was hesitant, however, as the limited change in wage indexation was interpreted as underscoring the government's difficulty in resolving this highly charged political issue. Thus, sentiment toward the lira remained bearish, and the authorities again found it necessary to tighten exchange controls in an effort to avoid an outburst of speculative selling when the special foreign exchange tax terminated on October 15. Ceilings on Italian banks' spot and forward positions were cut. Moreover, in a sweeping restriction, the authorities prohibited until further notice nearly all nonresident drawings on existing credit lines with Italian commercial banks. In addition, in order to bring credit growth back within the limits agreed with the EC, a ceiling on the growth of loans was reintroduced on October 15. Even after these measures were imposed, however, the removal of the foreign currency tax released a flood of pent-up foreign currency demand that drove the lira back down to \$0.001147 (872 lire). To cushion the decline in the rate, the Bank of Italy again had to intervene heavily. Consequently, in a matter of days the authorities reimposed the tax on foreign-exchange transactions—this time at 7 per cent for 4 months beginning in October—to bridge the period until the new economic measures could begin to improve the balance of payments.

As a result of all the restrictions then in force, the lira again came into demand. To avoid incurring the deposit and tax requirements on spot purchases of foreign exchange, Italian importers sought additional short-term trade credits abroad. At the same time, high domestic interest rates forced Italian commercial banks and other market participants to shift an increasing amount of their borrowing into the Euro-dollar market. Moreover, the risk of severe penalties on breaching nonresident credit limits prompted foreign banks to build up working balances in lire. In addition, the lira also benefited from a return flow of funds, placed illegally abroad earlier in the year, after the authorities extended their amnesty program to encourage further repatriations. On the strength of these various inflows of funds, the lira remained in demand through mid-December, fluctuating narrowly around $0.001156 (865 lire). The Bank of Italy took the opportunity to buy sizable amounts of dollars virtually every day, thereby rebuilding official reserves by some $1.4 billion during October and November. Early in December the Bank of Italy repaid the $486 million portion of the EC credit provided by Britain, while borrowing an additional $236 million on its gold collateral loans with the German Federal Bank.

By late in the year the Italian balance of payments was beginning to show signs of improvement as some of the restrictive measures adopted in October began to take effect. With the public-sector deficit under more effective control, the government forecast a reduction in the Treasury's borrowing requirement for 1977. In addition, the authorities took the opportunity to reduce compulsory commercial bank investments in public sector securities, while at the same time the central bank was able for the first time since 1975 to sell Treasury bills in the open market to absorb commercial bank free reserves.

In this improved atmosphere the government was in the position late in December to announce its decision to cut the currency tax in half, effective December 27, and to reduce the remaining levy in successive ½-percentage-point cuts, phasing it out entirely by February 21, 1977. Initially, the lira was marked down, as Italian firms—especially oil companies—came into the market to satisfy postponed foreign currency needs. By December 28 the lira had slipped over 1 per cent to $0.001143 (875 lire), even as the Bank of Italy intervened to moderate the decline. With market participants still delaying their foreign currency purchases in anticipation of further relaxation of the restrictions, however, the lira steadied after that burst of selling pressure had passed. In January the continuing domestic money squeeze stimulated further inflows from the Euro-currency market, which offset much of the demand for currencies that emerged as both the foreign currency tax and the import deposit requirement were progressively reduced. Thus, the lira eased only a further ¾ per cent to $0.001134 (882 lire) by the month-end, a net decline of 5¼ per cent for the 6 months since July 1976.

NETHERLANDS GUILDER

During 1976 the Dutch guilder was caught up in wide swings in market sentiment. In the speculative atmosphere that emerged in European currency markets early in the year, the guilder was bid up on the expectation that it would be revalued along with the German mark. Following a showdown over EC parities in March, however, the guilder came suddenly on offer when the market learned that the Dutch authorities were unwilling to revalue. Subsequently, the market grew increasingly bearish toward the guilder. To be sure, the economy was moving gradually into recovery, and the current account continued in substantial surplus. But the rise of domestic prices was still more rapid than in Germany, and the market questioned the prospects for any reduction of inflationary pressures. Thus, the guilder fell to near the bottom of the snake, where the central bank intervened heavily by selling dollars until a tightening of conditions in the Amsterdam money market helped bring the guilder market into better balance in early summer. Meanwhile, the guilder had joined in the general decline against the dollar to trade around $0.3675 by the end of July.

In early August, when speculation reemerged over a possible parity realignment within the EC snake, funds were shifted into marks, and the guilder came under attack once again, dropping to the bottom of the EC band where heavy intervention by the Netherlands Bank was required. To demonstrate a determination to maintain the guilder within the EC snake at prevailing rates, the authorities brought about an intense squeeze in the money market by successively raising the discount rate to 7 per cent by August 20 and by imposing increasingly stiff penalties on commercial banks' borrowings in excess of their quotas at the central bank.

By late August the combined effect of the heavy central bank intervention, the penal interest rates, and resident demand for balances to meet tax payments had sent overnight money rates in Amsterdam soaring to unprecedented levels. Dealers, faced with sharply increased costs of financing short guilder positions, rushed for cover. Dutch commercial banks liquidated some of their short-term foreign assets to meet liquidity needs, while adverse commercial leads and lags dating back to the spring were reversed. As a result, the guilder snapped sharply higher in late August and then kept pace with the mark's rise against the dollar except for a temporary setback just prior to the October 3 German elections. The Netherlands Bank was therefore able to purchase sufficient German marks in September and early October to repay the remaining indebtedness resulting from its previous intervention.

In the October 17 realignment of snake parities, the mark was adjusted upward by 2 per cent against the guilder. As a substantial reflux of funds and unwinding of adverse leads and lags developed within the arrangement, the guilder remained in demand. In this atmosphere the Netherlands Bank moved progressively to ease domestic liquidity. It continued its purchases of German marks and dollars in the exchanges, reduced penalty rates on commercial bank borrowings from the central bank, entered into swaps against dollars before the year-end, and lowered the official discount rate in two steps to 5 per cent January 7. In December the Dutch capital market, closed since the previous May, was reopened for selected foreign issues.

These various measures helped to keep the guilder just below the upper limit of the snake, where it followed the rising trend of the mark through the fall and early winter. On January 4, the spot guilder reached an 18-month high of \$0.4102. Thereafter, as U.S. interest rates firmed and sentiment toward the dollar improved, the guilder settled back to \$0.3965 at the month-end, for a net rise of 7 per cent since the end of July 1976. In the meantime the sizable central bank purchases of marks and dollars since August 1976 had contributed to a substantial increase in official exchange reserves so that in the year from January 1976 external holdings declined only marginally on balance.

BELGIAN FRANC

During the various episodes of exchange-market turbulence in early 1976, the Belgian franc was vulnerable to selling pressures, partly on market concern over Belgium's relatively high rate of inflation. Whenever tensions flared up in the exchanges, the Belgian authorities vigorously defended the franc by raising short-term interest rates and squeezing domestic liquidity. At the same time, even though the economic recovery was slower than in most other countries, they took other anti-inflationary measures. The market expected only slow progress toward price stability, however, in view of Belgium's system of indexing wage increases to the rise in prices, and this concern became even stronger when the serious drought last summer threatened to push domestic food prices up sharply.

Under these circumstances, when strains on the EC band resurfaced in late July and early August, adverse shifts in leads and lags put renewed pressure on the Belgian franc at the snake's lower limit. Therefore, the National Bank of Belgium was obliged to intervene in large amounts, along with the other participating central banks. But the generalized flow into marks was great enough to pull the franc up against the dollar, to \$0.025750 by mid-August.

Meanwhile, the Belgian authorities publicly reaffirmed their commitment to defend the franc's existing EC parity, expressing the view that a devaluation of the franc within the snake would have serious inflationary consequences while complicating the tasks of promoting economic recovery and reducing unemployment. Moreover, the authorities reimposed a severe credit squeeze, hiking the official discount rate in two steps to 9 per cent, raising interest rates on other official advances and short-term Treasury certificates even more, and cutting back on commercial bank credit limits with the central bank.

As Belgian liquidity tightened early in September, dealers began to cover some of their now expensive short positions, and pressure against the Belgian franc subsided. After mid-September the commercial franc moved away from the snake's floor and, apart from a brief speculative outburst before the German elections, the franc required only limited additional support against the mark through mid-October. In fact, on a few days, the franc firmed sufficiently within the joint float to enable the National Bank to buy small amounts of marks in the market to begin repaying the mark debt it had accumulated from earlier interventions.

Nevertheless, disparities in economic performance between Belgium and Germany continued to raise expectations of an eventual realignment between the currencies of the two countries. Thus, the market's initial reaction to the announcement on October 17 that the Belgian franc's snake parity—like the guilder's—would not be independently lowered in the realignment of the snake was one of disappointment, and the franc was marked down sharply the next day at the opening in Europe. But almost immediately thereafter the franc began moving back up against the dollar and within the snake, as market professionals came to the view that no further realignment could be expected in the near term.

Then, as short positions and adverse commercial leads and lags built up since mid-July were progressively reversed, the franc joined the other EC currencies in a steady advance against the dollar that continued through the year-end. By early January 1977 the franc rate had firmed to \$0.028000, 9½ per cent above midsummer levels. During this period the National Bank occasionally purchased dollars to moderate the rise. At the same time, with the franc holding firm within the EC snake, the National Bank bought sizable amounts of German marks in the market, initially to repay the remaining mark debt and later to build up dollar reserves by converting mark purchases at the German Federal Bank.

As a result, Belgian reserves increased from the end of October to the end of December by about \$700 million—enough to offset losses during the preceding 3 months. Meanwhile, the substantial injections of Belgian franc liquidity arising from the central bank's purchases of dollars and marks helped to ease strains in the Belgian money market, and the authorities followed up by lowering official lending rates on various advances and loans in line with the easing in market rates of interest.

By January official figures showed that Belgium's current account had moved roughly into balance and that Belgium's inflation rate was moderating once again. Domestic economic activity remained slack, however, and the unemployment rate, seasonally adjusted, had risen to nearly 6.2 per cent of the labor force. Under these circumstances and with the franc remaining steady within the EC snake, the Belgian authorities followed other European central banks in cutting domestic interest rates further. The National Bank reduced its discount rate for the first time since August to 8 per cent, lowered a variety of other official lending rates by as much as 2 percentage points, and raised commercial banks' rediscount quotas to increase the availability of credit. During the remainder of January, the commercial franc eased back along with the mark against the dollar to \$0.027040 by the month-end, a net rise of 6 per cent in the 6 months from the end of July 1976.

During the period under review, the Federal Reserve completed its program of regular purchases of Belgian francs to repay swap debt outstanding since August 1971, acquiring sufficient francs from correspondents and in the spot and forward markets to liquidate the remaining \$82.4 million of drawings by November 12.

JAPANESE YEN

Following the economic dislocations of previous years—inflation, payments deficit, and recession—the Japanese authorities were seeking to revive the domestic economy through fiscal stimulus and accommodative monetary policy without rekindling domestic inflation. When early in the year, however, the United States and other industrial countries experienced a sharp expansion of demand, particularly in rebuilding inventories, Japanese exports surged without an immediate rise in imports and Japan's trade and current accounts moved into substantial surplus. This development generated more positive expectations toward the yen, which, combined with favorable interest arbitrage incentives, led to substantial capital inflows to Japan.

Consequently, in the early months of 1976 the yen rebounded by some 2 per cent from its lows of late 1975. Although the market came into better balance over the late spring, the possible persistence of a large trade surplus for Japan became a matter of official concern abroad and was one of the subjects discussed at the economic summit meeting among major nations in Puerto Rico in late June. Moreover, the Japanese press carried reports that, in the economic policy debate emerging in Japan, some leaders expressed a readiness to accept a gradual rise in the yen to contain domestic inflation.

As the market reacted to reports of these policy discussions, the yen came into heavy demand from late June through August. Foreign importers of Japanese goods advanced their yen purchases in the spot and forward markets to cover future needs, nonresident investors shifted funds into Japanese securities, and market professionals both in Tokyo and abroad shifted into long or longer yen positions. The spot rate reached a high of $0.003504 (285.4 yen) by September 9, some 5¼ per cent above midyear levels. To maintain an orderly market, the Bank of Japan bought moderate amounts of dollars in August and September before the yen eased back somewhat late in September.

In early October, however, the balance of market sentiment shifted back against the yen. Talk of a sizable OPEC oil price rise in December had become a major concern in view of Japan's dependence on oil imports for the bulk of its energy needs. With the approach of the national election in Japan in early December, political uncertainties also weighed on market psychology toward the yen. Moreover, the economic pause in the United States and Europe during the summer had been reflected in a deceleration of Japanese export growth, which, coupled with a delayed rise in imports to rebuild stocks run down earlier in the year, had led to a narrowing of the trade and current-account surplus. Since the Japanese economy was also sluggish, the market came to expect that interest rates in Japan might eventually decline, and market rates softened somewhat even as the Bank of Japan kept its discount rate unchanged.

In this atmosphere, the yen came increasingly on offer in the exchange market during October and November, as professional traders shifted out of yen and into dollars while previously favorable leads and lags were unwound. Selling pressures increased on the days before and after the December 5 election, in which the ruling Liberal Democratic Party almost lost its absolute majority in the lower house of the Diet. By December the yen rate slipped to as low as $0.003359 (297.7 yen), some 4¼ per cent below its September high, with the Bank of Japan by then intervening forcefully to maintain orderly market conditions.

Over the next few days, however, the market atmosphere improved markedly. The smooth transition of authority to a new government under Prime Minister Fukuda had a reassuring effect, particularly as the new administration in Japan reasserted the policy of cautious stimulus to the economy. In addition, the outcome of the OPEC meeting in midmonth with a smaller-than-expected increase in OPEC oil prices also came as a relief to the market. Consequently, the yen turned upward once again, bolstered by seasonal conversions of export receipts.

By early 1977, figures had been released showing an over-all Japanese trade surplus of $10 billion for 1976 and a current-account surplus of about $3½ billion, or nearly 1 per cent of GNP. Moreover, the revival of demand in the United States and elsewhere was reportedly again generating a rise in Japanese exports that outpaced import growth. Amid renewed expression of concern over the size of Japan's trade and current-account surplus, funds again began to flow heavily into Japan. The yen thus continued to advance through most of January, reaching a high at the month-end of $0.003469 (288.3 yen), some 3¼ per cent above the early December low, with only modest intervention by the Bank of Japan.

CANADIAN DOLLAR

By midsummer 1976 the Canadian authorities had made significant progress in reducing inflation from the levels of 1974–75, partly as a result of a broad anti-inflationary program that included price and wage restraints as well as a restrictive monetary policy. At the same time, however, the pace of expansion of the domestic economy was sluggish, unemployment was still high, and Canada's current account remained in sizable deficit.

During the first half of 1976, this deficit had been more than offset by Canadian borrowings abroad, amounting to some $4.5 billion. Thus, while the market remained hesitant about the longer-term prospects, the conversions of these borrowings had pushed the Canadian dollar rate up strongly in the exchanges. The broader interest in the Canadian dollar that these borrowings had generated, together with the impressive rise in the rate, had attracted sizable professional position-taking that left the currency more exposed to volatile swings in market sentiment. When the pace of new borrowings and conversions slowed during midsummer, the Canadian dollar dropped about 3 per cent from its June highs to below $1.01 early in August.

In August and September, however, several new foreign borrowings were announced that generated a reversal of professional positions and reportedly attracted renewed flows of OPEC funds into Canadian dollars. Buoyed also at times by seasonally strong commercial demand, the Canadian dollar advanced again to above $1.03 by late October. The Bank of Canada continued to intervene on both sides of the market to maintain orderly trading conditions; the net result was that by the end of October Canada's official reserves were almost back up to the end-of-June levels.

Meanwhile, some longstanding concerns over prospects for the Canadian economy began to weigh on market sentiment. Opposition was building up, within both the labor unions and the business community, to an extension of the government's year-old wage–price control program. Also, the latest economic statistics indicated a further slippage in the already disappointing pace of recovery, raising the possibility of higher unemployment especially in Quebec and the Maritime Provinces. At the same time, the growth of monetary aggregates was slipping below the Bank of Canada's target range. Under these circumstances, the market became wary of significant declines in Canadian interest rates relative to those in the United States.

Thus, sentiment toward the Canadian dollar was already turning more hesitant when reports spread that the Separatist Party of Quebec might make severe inroads in the Liberal Party's majority in the upcoming November 15 elections for the Quebec provincial legislature. In response, the Canadian dollar came on offer and the spot rate began to soften even before the elections. Nevertheless, market participants were caught by surprise when the Separatist Party won by a sizable majority. In reaction, the Canadian dollar was marked down sharply in London the day after the election, before temporarily recovering somewhat in the New York and Canadian markets.

Over subsequent days, as the market tried to assess the broader political and economic implications of the election results in Quebec, the selling pressure gathered force. Professional dealers in both Europe and North America scrambled to cut back their Canadian dollar positions or to take up short positions. As the rate fell, commercial demand for Canadian dollars virtually dried up, U.S. corporations brought forward their normal year-end conversions of earnings by Canadian subsidiaries, and Canadian borrowers postponed their conversions of new foreign issues.

Meanwhile, interest rates in Canada also began to ease. On November 19, after a ¼ percentage point cut in Federal Reserve discount rates, the Bank of Canada announced a reduction in its lending rate of ½ percentage point to 9 per cent. With the Canadian dollar increasingly on offer, the spot rate tumbled through the $1.00 level over the Thanksgiving Day holiday and, in record turnover, continued to slide over the next few days. By Tuesday, November 30, it had reached $0.9587 in London, the lowest level since June 1970. The Bank of Canada provided substantial resistance to the sharp fall in the rate, and Canadian official reserves fell $759 million in November.

The Canadian dollar began a tentative recovery in early December, when some participants began to feel that the selling had been overdone. Reports of new foreign borrowings scheduled for early 1977 tended to provide some reassurance that, even after the Quebec election, Canadian borrowers could continue to tap the international credit markets. As the atmosphere improved, there were renewed borrowing conversions in the market, and some short positions were covered. In addition, reports circulated that the proceeds of Canadian wheat sales to China were being converted.

Thus, even after the Bank of Canada cut its discount rate another ½ percentage point on December 21, the exchange rate was marked down only briefly, and by January 5 it had recovered to $0.9984, more than 4 per cent above its November 30 low. The Bank of Canada intervened about as heavily to moderate the rise as it had to cushion the decline, adding $764 million to official reserves during December.

Nevertheless, the market remained cautious toward the Canadian dollar and the rate generally fluctuated lower during the rest of January. By this time, market participants held firm expectations of a further easing of short-term interest rates in Canada, while in contrast U.S. money market rates were tending to rise. Uncertainties over the timing of future borrowing conversions dampened professional bidding for Canadian dollars. In addition, the market reacted adversely to Quebec Premier Levesque's speech to businessmen in New York, in which he reaffirmed his party's objective of an independent French-speaking Quebec. By the end of January, therefore, the Canadian dollar rate had slipped back to $0.9825, for a net decline of 4¼ per cent over the 6-month period. During that time, Canadian official reserves declined by $115 million on balance.

MEXICAN PESO

For nearly two decades, Mexico's impressive economic growth largely reflected the authorities' efforts to mobilize domestic savings and attract funds from abroad to finance the development effort. Externally, this approach resulted in a current-account deficit that was normally offset by sufficient capital inflows to achieve at least over-all balance and, in most years, to allow for some accumulation of international reserves. Throughout this period, the Mexican authorities successfully maintained a fixed rate of $0.08, meeting with only occasional bouts of selling pressure. This stability nevertheless rested on a delicate balance of economic forces. Beginning in the early 1970's, ambitious social and economic programs at home led to growing fiscal deficits that eventually generated rates of inflation well above those in the United States and other major countries.

At the same time, Mexico was caught up in the backwash of worldwide inflation, particularly after the oil price rise of 1973-74, and the subsequent recession in the United States and other industrial countries. The Mexican authorities managed to avoid an economic downturn in 1974-75, but at the expense of a sharp widening in the current-account deficit that required even greater foreign borrowings than before.

By early 1976 the authorities had recognized the need for restoring internal and external balance and had made a start toward that objective. Nevertheless, market participants remained cautious, in view of the large economic imbalances that remained, the increasing wage demands of Mexican trade unions, and election-year uncertainties in Mexico.

Against this background the Mexican peso came under heavy selling pressure on several occasions in early 1976. By April rumors of a forthcoming devaluation of the peso had led to outflows of resident funds as well as to hedging by nonresidents of peso claims and receivables. To help finance its intervention at that time, the Bank of Mexico drew the full $360 million available under the swap arrangement with the Federal Reserve. Some reflows subsequently developed but not in sufficient volume for the Bank of Mexico to liquidate the swap drawing quickly, as it had with earlier drawings in 1974 and 1975.

The market remained edgy throughout the spring and early summer. After former Finance Minister López Portillo was voted to succeed President Echeverría in the July 4 election, many market participants expressed concern over the possible need for a change in the exchange rate either before or after the December 1 inauguration. Although Mexico's imports had steadied, the growth of exports was falling well below expectations, halting progress in reducing the current-account deficit. Yet, the authorities were unable to step up the pace of foreign borrowings to offset fully both the widening current-account deficit and the continuing hot money outflows. The Bank of Mexico continued to support the peso at the \$0.08 level, but at a heavy loss of international reserves.

On August 31 the Mexican authorities announced that, as part of an over-all strategy of economic adjustment, the peso would be allowed to float, with the Bank of Mexico intervening only to prevent "erratic and speculative fluctuations" in the spot rate. Other measures included steps to cut the public sector deficit, price controls on raw materials, and taxes on exceptional profits that exporters might receive from the peso's depreciation.

Immediately after these announcements, the spot peso was marked down almost 39 per cent before recovering slightly in thin trading. To help steady the rate, official intervention was soon resumed and the peso traded around \$0.0505 through late October. Meanwhile, in conjunction with these new policies, the Mexican Government had entered into negotiations with the IMF. In that context, the U.S. Treasury and the Federal Reserve agreed to a special arrangement with the Bank of Mexico on September 20, making available to that Bank up to \$600 million of interim financing. On that basis, the Bank of Mexico drew early in October \$365 million on the U.S. Treasury—an amount that was fully repaid when Mexico made its first drawing on \$963 million in credits made available by the IMF beginning in November. In October the Bank of Mexico also repaid the \$360 million of swap drawings on the Federal Reserve outstanding for 6 months.

In the exchanges, however, the attitude toward the Mexican peso remained bearish. Although wage increases were substantially below levels originally demanded by the labor unions, domestic prices had nevertheless risen sharply following the floating of the peso. Moreover, the market had come to expect that implementation of new measures in connection with Mexico's eligibility for drawing on the Fund would have to await the installation of a new administration on December 1.

In this atmosphere, a variety of rumors of capital controls or freezes on resident bank accounts began to appear in the market, triggering renewed movements of funds out of Mexico in early autumn. Later, in mid-November, reports of seizures of privately held land in northern Mexico generated further uncertainty. In response, capital outflows intensified and Mexican residents rushed to convert more pesos into U.S. dollars, including dollar currency notes.

In an effort to maintain an orderly market for the peso, the Bank of Mexico at first stepped up its official dollar sales. But, after sustaining a further loss of reserves, the authorities permitted the peso to sink a further 25 per cent to \$0.0380 on October 27, before resuming support for the rate. Among other credits to augment reserves, the authorities drew in November \$150 million on the swap line with the Federal Reserve and a total of \$300 million under the Exchange Stabilization Agreement with the U.S. Treasury.

Later that month, in the face of massive selling pressure on the peso and the likelihood of even more capital outflows before December 1, the authorities announced over the November 20–21 weekend that they were withdrawing temporarily from the market. To deter additional speculative selling of pesos, commercial banks and other credit institutions were prohibited from trading for their own accounts, except to cover existing commitments. Instead, stockbrokers were authorized to act as foreign exchange dealers for the purpose of executing essential transactions. Following these measures the immediate selling of pesos stopped and a technical shortage of peso balances quickly developed in both Mexico and abroad. Thus, the peso bottomed out at \$0.0345 on November

22—57 per cent below the prefloat level—and rose to as high as \$0.0526 by December 1.

That day, in his inaugural address, President López Portillo called for national unity, austerity measures, and a productivity improvement program to strengthen the Mexican economy. The speech was well received in Mexico and abroad, and over the following days a substantial reflux of funds into pesos developed. Thereafter, the new administration began implementation of the policy measures embodied in the agreement with the IMF and gained agreement in the January round of wage talks for wage increases that were more modest than expected.

Moreover, on December 20, the authorities lifted the prohibition against commercial banks' trading for their own account. Even as more normal trading resumed, the peso held firm at around the \$0.05 level through the year-end and into early 1977. When some selling pressure emerged briefly after mid-January, the rate dropped to as low as \$0.0444 before firming in good two-way trading. By the month-end, the peso was trading at \$0.0463, some 42 per cent below the prefloat level. Meanwhile, the Bank of Mexico's reserve position had improved sufficiently to repay in December \$150 million of the \$300 million drawn on the U.S. Treasury and to schedule repayment of the \$150 million in swap drawings on the Federal Reserve at maturity in February. □

Statements to Congress

Statement by Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee of the U.S. Congress, February 23, 1977.

As always, I welcome the opportunity to meet with this distinguished committee to present the views of the Board of Governors of the Federal Reserve System.

Your deliberations this year take place at a time when the interpretation of statistical information has been made especially difficult by the vagaries of the weather. While that is troublesome, there is good reason, I believe, to feel a sense of encouragement about underlying trends in our Nation's economy. We at the Board are especially pleased that the financial situation stands out as a significant positive factor in the economic outlook for the year ahead.

The task for monetary policy in the recent past has been clear—to facilitate a substantial expansion in economic activity, while guarding against the release of new inflationary forces. In its pursuit of that basic objective, the Federal Reserve has fostered moderate rates of monetary growth. During the period extending from the cyclical trough of March 1975 to January of this year, *M*-1, the narrowly defined money stock—which includes only currency and demand deposits—grew at an annual rate of 5.7 per cent. A broader monetary aggregate, *M*-2—which also includes savings and consumer-type time deposits at commercial banks increased at a 10.7 per cent rate. Contrary to the predictions of many economists who urged a more expansionist monetary policy, these increases in the stock of money have proved sufficient to finance a large gain in the physical volume of output and employment. Indeed, the evolving stock of money could readily have accommodated larger growth in economic activity than actually occurred.

The Federal Reserve's moderate policy, by damping inflationary expectations, has helped to restore public confidence—both here and abroad—in the value of our currency and in the future of our economy. The dollar is once again a respected currency in international markets. The demand for U.S. securities and other dollar-denominated assets is again strong. And the substantial increase in the exchange value of the dollar since the recovery began has relieved some of the upward pressures on the general price level in this country.

Moreover, and mainly as a result of the lessening of inflationary expectations, interest rates have not increased as they usually do in a period of cyclical expansion. On occasion during the past 2 years, yields in securities markets have registered noticeable upward movements—sometimes, as last month, because of shifting market expectations or the pressures of heavy Treasury borrowing, at other times as a result of Federal Reserve actions intended to hold monetary growth within desirable bounds. But the general trend has been downward, and the level of market interest rates on both short-term and long-term securities is appreciably lower now than it was at the beginning of the economic recovery.

Declines in interest rates have not been confined to public markets for securities; they have extended also to loans by financial institutions. Interest rates have come down on residential mortgage loans. The rate of interest on bank loans to borrowers of the highest credit rating has declined sharply. Rates paid by other bank customers are also down; in fact, at the end of last year, interest rates on loans to small businesses and farmers were at, or very near, their lowest levels since 1973.

Meanwhile, the stock market has shown a good recovery. Despite some decline since the beginning of this year, the average price of a share on the New York Stock Exchange at present is more than 65 per cent above its 1974 trough. A large measure of financial wealth has thus been restored to the millions of individuals across our land who own common stocks.

Our Nation's business enterprises have taken advantage of the prevailing financial climate to improve their liquidity. Corporations have issued a huge volume of long-term bonds, and they have used the proceeds largely to repay short-term debt and to acquire liquid assets. For a time, access to public markets for long-term funds was confined primarily to firms with the highest credit ratings. During 1976, however, lower-rated firms began to find a more receptive market for their debt issues; the yield spread between Aaa- and A-rated bonds, which was 1½ percentage points when the recovery began, has averaged only about ½ of a percentage point since last summer. In addition, many medium-sized firms, as well as firms with lower credit ratings, have met their needs for long-term funds in the private placement market where life insurance companies and other institutional lenders have extended a record volume of credit.

Besides this, the improved stock market has made it much easier for corporations to raise equity funds for financing new investment projects or for rebuilding capital cushions. The dollar volume of corporate stock flotations in 1976 was far above the depressed level during the recession. By following conservative dividend policies, business enterprises also have been able to add substantially to their retained profits, and debt-to-equity ratios of corporations have generally declined.

The market for State and local government securities was troubled in late 1975 and early 1976, when the New York City financial crisis made investors very cautious and drove up borrowing costs to many States and their political subdivisions. Since then, interest rates on municipal securities have declined sharply—more sharply, in fact, than interest rates on other fixed-income obligations. In addition, the spread between yields on higher- and lower-quality issues of municipal securities has narrowed. Record volumes of new tax-exempt bonds were sold in 1975 and 1976, in part to pay off short-term debt. These repayments, as well as the progress made in strengthening budgetary positions, have improved the standing of State and local governments with the investment community. In addition, the recent court decision setting aside the moratorium on certain of New York City's debt repayments has added materially to the confidence of investors in the safety of State and local obligations.

The condition of financial institutions has also improved over the past 2 years. Commercial banks, for example, have greatly increased their liquidity by doubling their holdings of Treasury securities and reducing their reliance on volatile sources of funds. With greater attention to canons of prudent management, banks have achieved moderate increases in profits—even in the face of substantial loan losses and larger allocations to reserves for possible future losses. A large share of bank profits has been used to enhance capital positions, so that the ratio of capital to risk assets, which had declined steadily during the early 1970's, has risen appreciably. These changes have done much to enhance public confidence in the soundness of the Nation's banking system.

Other depositary institutions have made similar progress in strengthening their financial condition. Savings and loan associations, in particular, have repaid large amounts of debt besides adding heavily to their holding of liquid assets. Furthermore, with savings inflows continuing very ample, the thrift institutions have stepped up their mortgage lending to a record level. Outstanding loan commitments are at an all-time high, and mortgage rates have continued to edge downward despite the huge volume of mortgage borrowing and the recent upward movement in sensitive market rates of interest.

In sum, it is clear that the financial base for economic activity has greatly improved. That, of course, is a highly important positive factor in the general economic outlook.

Other factors also suggest the likelihood of gathering economic strength as 1977 unfolds. During the closing months of last year, the demand for goods and services—except for inventory additions—picked up, reflecting primarily a resurgence in consumer buying and a further strong advance in homebuilding. The higher level of sales enabled business firms across the Nation to work off a good part of the excess inventories that had accumulated over the preceding months. With sales and stocks coming into better balance, the pace of orders and production began to quicken and the demand for labor strengthened. We thus began this year with employment and incomes increasing briskly.

During the past month or so, jobs, output, and sales have been adversely affected by cold weather and interruptions of fuel supplies. In some parts of the country, drought conditions have led to the rationing of water and may later affect some branches of agriculture as well as the cost and availability of hydroelectric power. Although the weather is leaving a mark on household budgets through its impact on incomes, fuel bills, and food prices, the over-all economic effect seems to be considerably less than has been suggested by many news headlines. In fact, production and employment have already snapped back smartly in most places. The hardships imposed on many American families by this inclement winter will be long remembered and, I hope, will stimulate long-needed action on a national energy policy. The recent difficulties, however, are not likely to have large or lasting effects on the performance of the economy during 1977.

Most major sectors of demand can be expected to contribute to the expansion of economic activity over the remainder of the year. Consumers have been showing an inclination to spend more freely; during the fourth quarter, the percentage of disposable personal income devoted to consumer spending was the highest in several years. Except in areas where the weather has been especially unfavorable, retail sales since the beginning of the year have continued at a satisfactory pace. Moreover, consumers have built up their stocks of liquid assets substantially during the past 2 years. With their financial condition thus improved, they are now displaying an increased willingness to incur added indebtedness in order to finance the purchase of automobiles and other big-ticket items.

The strong pace of consumer buying during the Christmas season resulted in a sharp decline in the ratio of inventories to sales in many lines of activity. Stocks of some goods probably have been further depleted in recent weeks because of production curtailments caused by weather and fuel problems. Businessmen may be reluctant to reorder in volume until they are more confident that the economy has regained its upward momentum. But as sales rise, they will soon have to add substantially to their inventories in order to meet customer demands.

Prospects for residential construction are also bright. Construction of single-family homes has already rebounded sharply, and production of multifamily units is now gradually recovering from the overbuilding and other problems that have been troubling this sector. Mortgage credit is readily available in practically all parts of the country, and residential building activity should therefore continue to move upward.

The outlook is less clear for the demand for U.S. exports. Our merchandise trade balance fell sharply last year—in large part because of our increasing dependence on foreign sources of oil and the weak revival of economic activity in many other countries. During 1977 imports will increase as the domestic economy continues to expand, but the rise is not likely to be as rapid as last year. Our export trade can be expected to improve, with the extent of the gain depending on the pace of worldwide economic expansion.

At present economic recovery is under way abroad, but the recovery in many countries is less decisive than in the United States. In a number of instances, less vigorous economic growth reflects actions taken to cope with inflation and severe imbalances in international payments. Among other difficulties, the process of adapting to the harsh reality of much higher oil prices is by no means complete. Thus, our export trade may be adversely affected for some time, particularly since credits to many foreign countries cannot very well continue rising as rapidly as they have in recent years.

There is much less uncertainty about the outlook for investment in business fixed capital in our country. Indeed, the near-term prospect is clearly favorable. It is our judgment at the Board—based on the continuing improvement of product markets, the intentions of business firms disclosed by survey data, the upward trend of capital-goods ordering, the increasing number of new firms, and the improved state of financial conditions—that business capital investment will grow significantly over the remainder of this year and into 1978. There is some question, nevertheless, as to just how vigorous or how durable the rise may be.

Historically, investment in plant and equipment has often increased rapidly even in the early stage of cyclical expansions. In the current recovery, however, business capital outlays have been sluggish; measured in constant dollars, they rose only 3 per cent through the final quarter of 1976. This contrasts with an average increase of 15 per cent during corresponding periods of the earlier business-cycle expansions since World War II. Of late, businessmen have been especially hesitant to commit themselves to major investment undertakings. The capital spending that has occurred so far in this expansion has been heavily concentrated in relatively small-scale items—for instance, office equipment, light machinery, and trucks. Relatively few large-sized industrial or commercial construction projects have been started recently.

I believe that a major reason for the inadequate expansion of plant and equipment spending is the impact of the recession of 1974–75 on the psychology of the business community. Not many of the current generation of business managers had ever experienced an economic decline of comparable severity. In recent times, the view spread in business circles, as it already had in the academic community, that the business cycle was dead—that any recession that might occur would prove brief and mild because governmental policies could be relied upon to keep the economy moving forward at a rather steady pace. Businessmen certainly were unprepared for the slump in sales and production in late 1974 and early 1975 that resulted from an inflationary process that had gotten out of control. In the aftermath of this hard experience, it is not surprising that corporate managers became more cautious in their planning and that rebuilding of the confidence needed for a new surge of investment activity is taking time.

This pattern of events has been worldwide in scope. Industrial nations generally have suffered a cycle of inflation and recession similar to that in the United States, and businessmen everywhere have since then tended to be unusually cautious in making major long-term investment commitments. During the past year, economic expansion in most countries has been held back by weakness in business capital outlays.

Contributing to this lack of confidence is the fact that, despite heartening progess over the past 2 years, inflation is still proceeding at a troublesome rate almost everywhere. In 1976, consumer prices in this country rose about 5 per cent. This was down from 7 per cent in 1975 and 12 per cent in 1974. But our businessmen as well as other citizens fear that the continuation of even a 5 per cent rate of inflation may be incompatible with the attainment of a durable prosperity. In an inflationary environment such as we have had in recent years, many business managers are apt to feel that they cannot reliably assess costs and profits over the long time horizons frequently involved in new investment projects. This inevitably affects their investment planning.

In addition, businessmen have been concerned for some time about the possibility of an early reintroduction—in one form or another—of price and wage controls. I sense, however, that this particular apprehension has diminished, thanks in large measure to President Carter's perception that concern about controls was complicating the process of business decision-making.

I must note also that governmental regulation has become an important deterrent to capital spending. Businessmen tend to shy away from costly investments whose useful economic lives may be cut short by the introduction of more stringent safety, health, or environmental standards. Rigid price regulation—as in the natural gas and transport industries—has served to reduce the incentives for investment. And the failure of the Federal Government to formulate a coherent, long-range energy policy has left the business community troubled and uncertain about the future cost and availability of fuels and petroleum feedstocks.

Furthermore, compliance with existing environmental and safety regulations adds to the cost of building and operating productive facilities—without increasing their salable output. These costs involve not only expensive equipment—such as pollution control devices—but also the time lost in going through extensive governmental review procedures. I understand that any given industrial construction project may be subject to as many as 10 different environmental regulations at the Federal level alone. And overlapping regulations at the Federal, State, and local levels, besides causing confusion and delay, sometimes work at cross purposes. This tangled regulatory system has caused some extraordinary delays both in the launching and completion of major capital projects.

The consideration of remedies deserves high priority. We must find the political courage to consider objectively not only the very real benefits of environmental and safety regulations but also their economic costs.

We should give serious consideration as well to reform of our system of Federal taxation in order to reduce the disincentives to business capital formation and to equity investment in American enterprises. The current congressional study of proposals for integrating the personal and corporate income taxes is a step in the right direction. I hope that the Congress will also examine the distorting effects of inflation on the corporate income tax, which have contributed to the weakness in after-tax earnings of our businesses over the past decade.

It may be well to emphasize that the Nation's stock of industrial capital has been growing too slowly not just during the current recovery but over a period stretching back at least to the beginning of this decade. The volume of business fixed investment per person added to the labor force was appreciably smaller between 1970 and 1975 than it had been between 1960 and 1970. This unquestionably has affected the trend of productivity, which has been decidedly disappointing in recent years.

What should concern us perhaps most of all is the distinct possibility that a continued lag in capital formation will make the attainment of full employment of our labor force extremely difficult further along in the current expansion—simply because we may have a deficiency of plant capacity relative to available labor. It is important, therefore, to focus intently on the whole range of problems relating to capital formation. Senator Humphrey and Senator Percy wisely called attention to this need last year by introducing S. 3693, the "Investment Policy Act of 1976,"—a bill that stresses the importance of creating an environment that is more conducive to business capital formation.

The steps suggested here will not suffice, however, to bring about a lasting improvement in the level of investment activity if our Nation fails to pursue fiscal and monetary policies that promise continuing progress in moderating inflation. Forward business planning, which is extremely challenging under the best of circumstances, becomes exceptionally hazardous in an inflationary environment of the kind that has existed in our country since the mid-1960's. Nor for that matter can there be satisfactory planning in such an environment by households or governments. Many of the problems that our cities have been living with are traceable to the stresses of inflation in the early 1970's—specifically, to the ballooning of costs for municipalities whose tax revenues, unlike those of the Federal Government, respond sluggishly to inflation.

In conducting fiscal and monetary affairs, we in the Federal Government must not allow ourselves to be lulled into thinking that stimulative actions are riskless because there is now considerable slack in the economy. As we should know by now, pressures on resources and prices can arise even at a time of substantial unemployment.

For its part, therefore, the Federal Reserve System is committed to a course of monetary policy that will permit sufficient growth of money and credit to support good expansion in economic activity, but which will avoid the release of new inflationary pressures or expectations. On the fiscal side, it is no less imperative that budgetary deficits be gradually reduced and before long eliminated. If they are not, anxieties about the future path of inflation may threaten the hard-won progress that has been achieved in improving the condition of our financial markets and the over-all economy. As our economy continues to expand, a significant and steady lessening of Federal Government demands on capital markets will be vital to release savings for use in the private sector of the economy. The supportive role which government appropriately plays at a time of extensive unemployment, such as we have been experiencing, must be scaled down as the Nation moves toward fuller utilization of its resources.

No problem more urgently requires our attention than the unemployment of some 7 million Americans. But we must be skeptical of solutions that require ever-larger governmental deficits or ever-faster money creation.

Fortunately, understanding of the complexities of our Nation's economic problems has grown as a result of the hard lessons of recent years. If all of us in government work together and share ideas, I am optimistic that we can fashion policies that will go far toward strengthening the state of confidence on which the jobs and prosperity of our people ultimately rest. □

Statement by Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System, before the Committee on the Budget, U.S. House of Representatives, March 2, 1977.

It is a particular pleasure, Mr. Chairman—and I do not say that lightly—for me to meet with this committee. For many years, I joined other citizens in urging a reform of the budget process, so that tax and expenditure decisions of the Congress would become effectively linked. Passage of the Congressional Budget Act of 1974 was a major landmark in financial reform—comparable in importance, I think, to the Budget and Accounting Act of 1921, which rationalized budgetary procedures for the executive branch. In my judgment, the experience of the last 2 years confirms the wisdom of the 1974 innovation. The new element of order and discipline that this committee, your counterpart in the Senate, and the Congressional Budget Office have brought to fiscal deliberations has served the American people well. We finally have a mechanism for determining congressional priorities and relating expenditures to prospective revenues.

Today, I would like to share with you my views about evolving trends in economic and financial conditions and to spell out the implications, as I see them, of those trends for some of the critical economic policy questions that confront our Nation.

This winter's unusual weather has, of course, greatly complicated the interpretation of statistical data. For a while, jobs, output, and sales were significantly affected by cold weather and interruptions of fuel supplies, especially in the eastern half of the country. And in parts of the West, drought conditions have necessitated the rationing of water and may later affect some branches of agriculture and also the cost and availability of hydroelectric power.

These vagaries of the weather have left their mark on household budgets through their impact on incomes, fuel bills, and food prices. The over-all economic effect, however, in all probability will prove considerably smaller than many news accounts initially suggested. The period of acute disruption of industrial and commercial operations was, after all, brief, and as we meet here today, production and employment appear to have recovered in most places. While I am sure that the hardships imposed on many American families by this winter's extraordinary weather will long be remembered, it seems most unlikely that the disturbance we have suffered will have large or lasting effects on the performance of our economy.

There is good reason, I think, to feel a sense of encouragement about the way in which underlying economic conditions are unfolding. Before the advent of inclement weather, the economy was already emerging from the phase of hesitancy that prevailed for a while last year. During the closing months of 1976, the demand for goods and services—except for inventory additions—accelerated, reflecting primarily a resurgence of consumer buying and a further strong advance in homebuilding. The improvement in sales volume enabled business firms to work off a good part of the excess inventories that had accumulated over preceding months when buying was fairly sluggish. With sales and stocks coming into better balance, the pace of orders and production began to quicken and the demand for labor strengthened. This reacceleration of the recovery was the consequence, in my judgment, of gradually cumulating strength in key sectors of our economy and an improved financial environment. I believe that we shall see evidence before long that the reacceleration has survived the weather disturbance, and I expect good gains to be recorded in general economic activity this year.

Emerging trends in the consumer sector were strongly favorable as this year began. The considerable expansion in jobs last year, also the decline in the rate of inflation and the enlarged liquid assets of households, served to improve consumer sentiment. It seems reasonable to think that it is those trends—rather than the transitory effects of bad weather—that will basically condition household behavior in the months ahead. A quickening tempo, as I have noted, developed in late 1976 for both incomes and employment. This created the basis for more aggressive retail buying. Indeed, reliance on instalment credit to finance purchases of consumer durable goods increased in late 1976; and, strikingly, the personal saving rate for the fourth quarter fell to its lowest reading in several years.

One consequence of the buying surge was that inventories toward the close of last year fell below levels preferred by many business firms. In some instances further depletion of stocks has since then occurred because of the production curtailments occasioned by bad weather and fuel problems. Very possibly, therefore, considerable inventory investment by businesses lies ahead.

The major influences that affect residential construction are also favorable. Indeed, except for January's weather-related setback, housing activity has been in a strong upward movement since last autumn. The swelling of new housing starts in the fourth quarter of 1976—to a rate, incidentally, 30 per cent greater than a year earlier—assures that work on homes under construction will be very active for a good many months to come. And some further rise in starts is a reasonable expectation, in view of the liquid condition of mortgage-lending institutions and the progressive correction of the imbalances in the housing market that arose during the early 1970's.

The outlook for business capital spending in 1977 is also promising, even though serious questions can be raised as to the likely adequacy of capital formation in our country over the longer term. So far in the current recovery, capital spending has been lagging; measured in constant dollars, it rose by only 3 per cent through the final quarter of 1976. This contrasts with an average rise of 15 per cent during the corresponding periods of earlier business-cycle expansions since World War II. However, the average rate of gain should be decidedly better during the next year or so.

This judgment is based on a number of considerations—the continuing improvement of product markets, the intentions of business firms to invest as disclosed by survey data, the increasing number of new firms that are starting up operations, the comparatively favorable cash position of corporations, and an impressive uptrend in capital-goods ordering. Contracts and orders for plant and equipment, a leading indicator of investment activity, spurted at an annual rate of more than 20 per cent in the fourth quarter of last year, and monthly data covering new orders for nondefense capital goods show the rise continuing in January. To be sure, the level of capital-goods production is still far short of what we normally might expect at this stage of cyclical expansion, but we can at least anticipate that it will make a larger contribution to the advance of the general economy this year than it did in 1976.

It is much more difficult to reach a confident judgment about how exports and imports will impinge on our Nation's economy this year. In 1976 both exports and imports rose considerably, but our export trade was held back by the weak expansion of many foreign economies. The rise in imports was far more pronounced, reflecting in significant part our increasing dependence on foreign sources of fuel. Some further decline in our trade balance and also in the broader current-account balance is likely this year, but not nearly to the degree that occurred in 1976.

The challenge facing our exporters is formidable because of the continuation of less decisive recovery tendencies abroad than here at home. In some instances, less vigorous economic growth reflects actions taken by foreign officials to cope with severe inflationary problems and the accompanying imbalances in international payments. An important drag on recovery in numerous countries is the ongoing adjustment, as yet far from complete, to the quantum jump of oil prices since 1973. Thus, our export trade may be adversely affected for some time, particularly since the external indebtedness of many nations cannot continue rising as rapidly as it has in recent years.

But with the exception of these uncertainties relating to foreign trade, factors on the demand side generally seem to point to good growth in our Nation's output this year. Buttressing that expectation is the fact that over-all financial conditions in this country—an area in which the Federal Reserve System has a major responsibility—provide a satisfactory foundation for economic growth.

The basic objective of monetary policy in the recent past has been to promote conditions conducive to substantial expansion in economic activity, while guarding against the release of new inflationary forces. To that end, the Board of Governors of the Federal Reserve System has fostered moderate rates of monetary growth. During the period extending from the cyclical trough of March 1975 to February of this year, *M*-1, the narrowly defined money stock—which includes only currency and demand deposits—grew at an annual rate of 5.6 per cent. A broader monetary aggregate, *M*-2—which includes as well savings and consumer-type time deposits at commercial banks—increased at a 10.7 per cent rate.

These increases in the stock of money have proved adequate to finance a large gain in the physical volume of output and employment. Indeed, the evolving stock of money could readily have accommodated larger growth in economic activity than actually occurred. In that connection, it is important to bear in mind that consideration of the stock of money alone is not sufficient for assessment of the adequacy of the economy's liquidity. Money has a second dimension, namely, velocity, or—in common parlance—the efficiency with which it is being used. For the narrowly defined money supply, efficiency of use has been improving with special rapidity in recent years, reflecting numerous innovations in financial technology that serve to reduce reliance on demand deposits for handling monetary transactions. In fact, during the span of the current recovery, the gains recorded in the efficiency of *M*-1 appear to have exceeded typical gains during corresponding periods of past cyclical upswings.

Major benefits have flowed from the Federal Reserve's carefully fashioned monetary policy. By holding resolutely to a course of moderation—a policy that at times has run counter to strongly voiced urgings that we be much more expansionist—we have helped in very significant degree, I think, to dampen inflationary expectations. This has strengthened public confidence—both here and abroad—in the value of our currency and in the future of our economy.

Mainly as a result of the lessening of inflationary expectations, interest rates have not increased as they usually do in a period of cyclical expansion. On occasion during the past 2 years, both short- and long-term interest rates have registered noticeable upward movements, but the general trend has been downward in the yields on securities traded in public markets and also in the interest charges on loans extended by financial institutions. In general, interest rates are appreciably lower now than they were at the beginning of the economic expansion—a fact that augurs well for the continuation of recovery. One of the considerations brightening the housing outlook, for example, is that the average rate on residential mortgage loans across the country has come down almost 1½ percentage points from its earlier high. Also important to the housing outlook is the fact that the rates paid by mortgage-lending institutions to their depositors remain attractive relative to money market obligations, so that no threat exists—at least for the immediate future—of heavy shifts of funds out of such institutions.

Significantly, our Nation's business enterprises have made good use of the prevailing financial climate to improve their liquidity. Corporations have issued a huge volume of long-term bonds, and they have used the proceeds largely to repay short-term debt and to acquire liquid assets. They have also greatly increased the volume of stock flotations above the depressed level during the recession. Supplementing these actions, business enterprises have followed generally conservative dividend policies, thereby retaining substantial amounts of current earnings for internal use. The consequence of this combination of moves is that corporate balance sheets have a much healthier look now than they did several years ago. The average maturity of outstanding corporate debt has been lengthened appreciably, and businesses now also have more equity relative to debt. This clearly puts business firms in a good position to expand the scale of their operations as opportunities arise. For a while the improvement in liquidity occurred mainly in the case of firms enjoying the highest credit ratings and therefore having the easiest access to longer-term funds; but the improvement has progressively become a generalized phenomenon.

The favorable condition of financial markets has been of important help as well to the Nation's State and local governments. Record volumes of new tax-exempt bonds were sold in 1975 and 1976, in part to pay off short-term debt. Those repayments, together with progress made by many States and municipalities in strengthening their budgetary positions, have improved the standing of such governments with the investment community. Testifying to that is the fact that interest rates on municipal securites have not only declined; they have declined more sharply than interest rates on other fixed-income obligations. In addition, the spread between yields on higher- and lower-quality issues of municipal securities has narrowed. These developments suggest that the demand for goods and services by States and municipalities —which was relatively subdued during the past several years of difficult adjustment—will now expand somewhat more rapidly.

During the past 2 years, the Nation's financial institutions have also strengthened their capability to be supportive of economic expansion. Commercial banks have materially improved their liquidity by doubling their holdings of Treasury securities and reducing reliance on volatile sources of funds. They have, moreover, retained a large share of profits to enhance capital positions, so that the ratio of capital to risk assets, which had declined steadily during the early 1970's, has risen appreciably. Other depositary institutions have made similar progress in strengthening their capacity to respond to financing requests. Savings and loan associations, for instance, have repaid large amounts of debt besides adding heavily to their holdings of liquid assets. With savings inflows ample, thrift institutions have already stepped up their mortgage lending to a record level, and they clearly are going to have considerable scope to accommodate further the demands for mortgage credit in 1977.

In sum, both the background of favorable financial conditions prevailing at this time and the growth patterns that have been unfolding in key sectors of our economy justify considerable optimism about the immediate future. Indeed, it seems doubtful to me, as I have previously indicated, that any special efforts to stimulate growth—at least none of conventional character—are now needed to assure broad economic expansion this year and on into 1978.

I realize that a majority of this committee, as well as the able members of President

Carter's economic team, feel differently. I thoroughly respect their judgment as well as yours. In matters pertaining to the future, no sensible person can be at all certain that he has captured the truth. As things stand, I diagnose the condition of our economy somewhat differently, and it is my duty to advise you as best I can.

I believe that we can all agree that, in wrestling with the policy challenges that face our Nation, no objective deserves higher priority than that of creating job opportunities for the millions of Americans who want to work but who nevertheless now find themselves idle. But while the goal we seek is clear, appropriate actions for dealing with unemployment are not easy to devise or to carry out.

By my diagnosis, as I have already noted, our economy faces a serious deficiency of business investment in fixed capital, rather than any generalized problem of demand deficiency. The underlying difficulty is that we have done many things over a span of years that have been damaging to the state of confidence—especially the confidence of the business community. Efforts at fiscal stimulation do not seem promising to me in these circumstances. Indeed, they could prove inimical to real progress, if only because they are likely to be perceived by many people as an extension of the loose budgetary practices from which so many of our troubles derive.

By and large, the American public is familiar with the sorry record of Federal Government finances in our generation. More and more of our citizens have come to appreciate the linkage between the record of persistent deficit financing and the debilitating inflation of recent years. The degree to which we have been unwilling to tax ourselves—even in good years—to finance the programs enacted by the Congress never ceases to astonish me, no matter how often I scan the figures. Only once since 1960 has the Federal budget shown a surplus. The cumulative deficit in the unified budget over the past 15 years, including the newly revised official estimate for the current fiscal year, comes to $308 billion. If the spending of off-budget agencies is also taken into account, as it should be, the aggregate deficit for the period amounts to $337 billion.

We have built momentum into the rise of Federal expenditures by the enactment of "entitlement" programs relating to income security and health and by extending inflation escalator clauses to a significant range of Federal programs. The merit of many of these responses to the needs of our citizens is indisputable, but the impetus thus imparted to budgetary expansion is nevertheless very serious. It underscores the imperative need for us to be extremely cautious in adding new programs to the budget. In stressing this principle, President Carter deserves your and the Nation's full support. But it is equally important that the Congress ponder carefully any abrupt surrender of sizable amounts of tax revenue.

The inflation that has plagued the American economy since the mid-1960's is a complex phenomenon, and it is by no means solely the product of budgetary practices. But there can be little doubt that the chronic reaching of the Federal Government for both financial and real resources has been a major contributory element in inflation—indeed, the dominant one in my judgment. The Federal Government was a party—rather than the counterweight it should have been—to the demand pressures that began building up in the mid-1960's and that culminated in the speculative distortions of the 1973–74 period. Inflation, by my assessment, not only sowed the seeds of the recession that ensued; it also is the basic explanation—precisely because it became so virulent—of why the recession that followed was so severe. Blinded by the explosive advance of prices which for a while swelled nominal profits—businessmen were unusually slow in adapting their activities to the weakening pattern in consumer markets that had actually become quite well defined during 1973. When businessmen finally recognized in the autumn of 1974 that their perception of market conditions had been mistaken, the response in scaling back operations was often drastic—in large part because distortions had been allowed to cumulate for such a long period.

A strong residue of caution has been evident in business circles since then. That caution—which explains, I believe, the relatively weak recovery in capital spending so far in this expansion—is an amalgam of several things. These include the rude discovery that the business cycle is by no means dead, a heightened worry about the troubles inflation can breed, apprehension about the cost and availability of energy supplies, a lingering fear that expansionist governmental policies could again lead to price controls, and growing concern about the costs of complying with existing environmental and safety regulations. In short, a confident business mood has been slow to emerge in the aftermath of recession, in considerable part for the reasons that relate to our recent history of inflation and Government's role in that history. The consumer mood is stronger; but consumers, too, have anxieties about inflation and inflation-inducing actions by Government.

What this analysis suggests to me is that governmental consideration of economic policy should focus sharply on ways and means of strengthening the confidence of our people in their own and the Nation's economic future. By focusing as we have on the size of a "stimulative" fiscal package, we inadvertently have been diverting attention from what I believe to be the main problem.

At this juncture of history, Government actions should aim above all else at reassuring our citizens that the policy mistakes of the past will not be repeated. Indeed, from the viewpoint of the responsibilities of this committee, a consideration of what not to do again ought, I believe, to serve as the critical point of departure for policy formulation.

Starting there, I obviously cannot feel comfortable about the official budget for fiscal 1977, or for that matter about any budget, which moves toward enlarging the Federal deficit. This prospective enlargement comes at a time—unlike that of 1975—when private credit demands are rising. Thus, a troubling departure is occurring from the normal pattern of gradually diminishing demands for credit by the Federal Government as recovery proceeds.

On the basis of the revised budget proposals submitted by the administration, it would appear that Federal borrowing in public markets in the current calendar year could be $10 billion or so higher than in 1976. The prospect that Federal demand for credit will run considerably higher than earlier seemed likely has stirred uneasiness among credit market participants, as is evidenced by the decline in prices of fixed-income obligations that followed disclosure of the administration's intentions. While a "crowding out" of private borrowers from credit markets does not seem a serious threat, at least not for 1977, the enlarged prospective competition of the Federal Government with private borrowers—with the housing sector, for instance—is most unwelcome. It may impart some upward tendency to interest rates, and it will also make it more difficult for the Treasury to achieve further progress in lengthening the maturity of outstanding debt.

I have felt obligated in the course of this statement to explain to you why, on the basis of my interpretation of the events that have occurred during recent years, I have reservations about budget moves that do not yet have the appearance of breaking with the past. Whatever early action is taken in the Congress with regard to the budget, I hope that the point I have made about the vital need for confidence-building actions will carry some weight in your continuing deliberations as the year goes on. To give Americans confidence that the future will be something other than a repetition of the past, Government must demonstrate in a persuasive way that it is regaining control of our fiscal affairs.

The President's commendable goal of a balanced Federal budget within 4 years might still be within reach even if the budget is now enlarged by the full amounts that have been recommended. The task of holding to that timetable will, however, be made more difficult by each and every enlargement of spending. This emphasizes the need for an especially cautious approach to requests for program increases—both now and in the future. In that regard, I particularly want to applaud the President's decision to go forward with a zero-base budget system for fiscal 1979, and also to review very critically the current practice of allowing off-budget outlays. These steps should serve to reduce, if not eliminate, programs that have outlived their usefulness.

Such a budgetary approach, it seems to me, has great potential for helping to arrest the powerful upward push of Federal spending. For the record, I would note that the Federal Reserve has for some time been conducting two pilot studies of the feasibility of adopting zero-base budgeting. One of those studies is going forward at the Chicago Federal Reserve Bank and the other in a division of the Board. While evaluation will take some time, I am inclined to think that we may be able to move to the recommended approach fairly rapidly, even though as an independent agency we have no formal obligation to do so.

In closing, I would like to come back for a moment to the workings of the new congressional budget system. I am aware, of course, that the proposal for a Third Concurrent Resolution for fiscal 1977 has been subjected to some fairly sharp criticism. To the extent that such criticism has been directed at the specific content of the resolution, it seems entirely proper. Indeed, as I have made clear here today, I take some exception myself to its basic thrust. The legitimacy of having a third resolution, however, does not seem to me to be open to question. If a judgment emerges after the acceptance of a particular concurrent resolution that some significant change has occurred in national conditions, then a reopening of that resolution for revision is a clearly proper and responsible action.

I would voice, however, one cautionary word. As a practical matter, if the Congress were to move in the direction of very frequent revision of concurrent resolutions, the essential discipline of the new budgetary process would be lost. It may be useful to recall that the only previous effort by the Congress to operate with a formal legislative budget—under the Legislative Reorganization Act of 1946—foundered in part because liberal supplemental appropriations made the whole exercise of spending ceilings by concurrent resolution somewhat pointless. While I do not think there is great risk that we shall travel such a route again, I mention that bit of history because it is so vital that the new legislative budget process continue to evolve along the lines of its promising beginnings. The last 2 years have clearly demonstrated the value of the legislative budget as an instrument for bettering fiscal discipline. This committee has earned the Nation's gratitude by its commitment to that objective. □

Statement by Philip E. Coldwell, Member, Board of Governors of the Federal Reserve System, before the Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations, U.S. House of Representatives, March 3, 1977.

I am pleased to present the views of the Board of Governors of the Federal Reserve System on H.R. 2176, a bill that would direct the General Accounting Office (GAO) to conduct audits of the Federal Reserve Board and of all the Federal Reserve Banks. The Federal Reserve opposes enactment of this legislation—as it has opposed similar proposals over the past 25 years—for two principal reasons: First, it would constitute, in our view, the first significant step toward compromising the ability of the Federal Reserve System as the Nation's central bank to render objective, independent judgments on the course of monetary policy. Second, the Federal Reserve Banks, which account for almost 95 per cent of the expenditures of the System, are already subject to extensive audit by the Board of Governors pursuant to an express mandate in the Federal Reserve Act and maintain an independent audit staff for day-to-day review of expenses. The GAO itself has recognized the effectiveness of this audit procedure, and there have been no significant challenges to the expense control of the System. Furthermore, for almost 25 years the Board itself has been audited annually by a leading national firm of independent auditors. The results of this audit work are available to the Congress. Accordingly, we submit that there is no need for legislation that would impose an additional audit upon the System.

The Federal Reserve System is the creation of the Congress, and the Congress has the authority to change the nature of the central bank in any manner it sees fit. We are concerned, however, that by significantly altering one of the primary protections to the System's independence—its authority to establish its own budget and audit its expenditures—the Congress may, without intending to do so—and notwithstanding supposed safeguards in the legislation—profoundly change the concept of an independent monetary authority that has served the country well for over 60 years. Our fears in this regard are not based upon mere speculation, for it is no secret that a principal objective of many proponents of a GAO audit of the Federal Reserve over the past quarter century has been to achieve control over monetary policy through that means. Indeed, little over a year ago when this very issue was before the 94th Congress in H.R. 7590, a leading consumer advocate argued quite bluntly that if the public would rally behind a GAO audit bill "they could help substantially to reduce interest rates in the coming years." Reduction of interest rates may or may not be in the broad public interest at any particular time, and it was precisely because the Congress recognized that political expediency should not determine the course of interest rates that it created the Federal Reserve as an independent monetary authority. While H.R. 7590 failed of passage in the 94th Congress, it was clearly perceived by the opponents of an independent Federal Reserve as a means of bringing outside influence to bear upon the System's monetary policy judgments.

The Congress has carefully constructed the Federal Reserve System in such a way as to be free from day-to-day political pressures. As the House Banking Committee stated emphatically in its 1913 report on the original Federal Reserve Act, the Board was created "as a distinctly nonpartisan organization whose functions are to be wholly divorced from politics." To achieve this purpose the Congress has insulated the Board from control by the executive branch by providing its members 14-year terms, staggered so that one term expires every 2 years, and by excluding the System from the classified Civil Service. It has also insulated the System from the continuing operational control that might be exercised by the Congress itself through the appropriations process. The Reserve Banks fund their operations through the earnings realized on their securities portfolios, and under the provisions of the Federal Reserve Act the Board's expenses are met through periodic assessments levied upon the Reserve Banks.

As a part of that nonpolitical structure, the Congress deliberately created a quasi-private status for the Reserve Banks. The concern over concentration of power, credit control, and regional diversities, led the Congress to give semiautonomous powers to the Banks with their own Boards of Directors and with their Presidents participating in the formulation of national monetary policies. General supervision of the Banks was assigned to the Board of Governors, including approval of budgets and examination of expenses. Changing this arrangement to inject the GAO into Reserve Bank oversight could shift the fundamental roles of the Banks and upset that fine balance of control and participation that has brought valuable regional input to national policy.

The Congress has repeatedly rejected proposals to alter this structure. Indeed, on those few occasions since 1913 when the Congress has made changes in the original structure of the System it has moved toward providing greater protection of the System's independence. In 1933, for example, the Congress repealed that portion of the Federal Reserve Act that designated the Secretary of the Treasury and the Comptroller of the Currency as *ex officio* members of the Board, because of its concern that the formal participation of these executive branch officials in the policy deliberations of the System could impair the independent judgment of the Federal Reserve.

Significantly, it was also in 1933 that the Congress took action to exclude the Federal Reserve Board from the audit jurisdiction of GAO. As I have mentioned, the original Federal

Reserve Act provided that the Board's expenses should be paid from assessments levied by the Board upon the Federal Reserve Banks, rather than from appropriated funds. Shortly after the creation of the Federal Reserve System, the Attorney General ruled that the funds raised through these assessments on the Reserve Banks were "public monies" within the meaning of the Federal auditing statutes. As a result of that opinion the funds of the Board were audited by Treasury Department auditors until 1921, when the GAO was established. From that time until 1933, the Board's funds were audited by the GAO.

In the Banking Act of 1933, however, the Congress amended the Federal Reserve Act to state explicitly that funds derived from such assessments on the Reserve Banks "shall not be construed to be Government funds or appropriated monies," and it specified that "the Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid." As a result of this amendment, which was enacted for the explicit purpose of increasing the independence of the Federal Reserve, the Board was no longer subject to audit by the GAO.

Exclusion of the System from GAO's audit jurisdiction has not by any means meant that the System's operations are free from careful scrutiny and accountability. In the original Federal Reserve Act, the Congress expressly charged the Board of Governors with responsibility for exercising supervisory authority over the Banks and directed the Board to examine "the accounts, books and affairs" of each Reserve Bank at least once each year. To accomplish this task the Board's Division of Federal Reserve Bank Examinations and Budgets, composed of about 50 auditors and managers, performs a detailed annual financial examination of each Reserve Bank, as well as periodic operational reviews of all major operations of the Banks. The financial audit includes verification of the accuracy and reliability of the balance sheet, verification of cash and securities, evaluation of the propriety of expenditures and the effectiveness of internal control systems, and a review of compliance with established procedures, regulations, and policies. The operational reviews are in-depth studies of methods and procedures followed by the Banks in carrying out their principal functions. At the conclusion of each examination or review, detailed oral and written reports are rendered, documented responses are requested, and a final report is prepared. A comprehensive oral report is presented annually by the Division to the Board of Governors and to the Directors of each Bank on the results of all reviews and examinations in the respective Districts.

Another part of this control of expenses is the audit department in each Reserve Bank. These professionals, acting independently of Bank managements, are responsible directly to the Board of Directors for enforcement of System guidelines and policies. The Board of Governors' examiners review the procedures and activities of the audit departments as well as check a portion of their audit work in detail. The Board's examiners also appraise the competence and independence of the Federal Reserve Bank auditors and report their findings to both the Board of Directors and the Board of Governors.

The other two parts of the over-all control program involve the managements and Boards of Directors of the Reserve Banks. The senior officers exercise their best judgment in managing the Reserve Banks and compete among themselves for the best rank in the System in productivity, cost efficiency, and quality of service. As a former President of a Federal Reserve Bank, I can assure you that the Bank Presidents do exercise careful control over the costs of the banks and view the audits not as a self-audit but instead as a searching examination by informed personnel.

The Boards of Directors, which include experienced businessmen and bankers, also contribute their knowledge of organization, methods, and procedures to the efficient operation of the Banks. Moreover, through their audit committees the Boards of Directors receive the reports of the auditors and counsel with managements to insure adherence to System policies. The Chairman of each Reserve Bank Board meets personally each year with the Board's Committee on Federal Reserve Bank Activities to review and appraise the operating efficiency of the Bank and the performance of its senior officers. The conferences permit frank exchanges about the strengths and weaknesses of each Bank and the relative position of each against the ever-improving position of others.

Thus the Federal Reserve has four distinct lines of control to assure adherence to System policies and to promote steady improvement in productivity and cost efficiency. The managements, Boards of Directors, and auditors of the Reserve Banks and the examiners of the Board of Governors are all part of an elaborate system of formal and informal surveillance over Reserve Bank efficiency, costs, and services.

As a result of this whole procedure of audits, reviews, and consultation, the Reserve Banks have been making significent gains in efficiency. As measures of this progress, the following may be cited:

—Checks processed in 1976 totaled 12.3 billion items—up 23 per cent from 1973 but handled with almost 9 per cent fewer employees and with total costs increasing only 15 cents per thousand or 1.5 per cent over 1973 costs.

—Currency sorted and counted rose 4.5 per cent from 1973 to a 1976 total of 7.0 billion pieces handled by 19 per cent fewer employees and with an increase in cost of only 8 cents per thousand or 5.8 per cent over 1973 costs.

—Just in the past 2 years the number of personnel needed to handle Reserve Bank operations has declined by 1,374 or 5.4 per cent.

We do not see what advantage there is to be gained either in requiring the GAO to duplicate the audit of the Federal Reserve Banks that has been carried on by the Board for decades, or in substituting GAO for the Board as the auditor of the Banks. Indeed, the GAO itself has repeatedly recognized the effectiveness of the Board's audits of the Reserve Banks, and in past years has represented to the Congress that there was *no* need for GAO to audit the Banks. In 1945, when the Congress was considering general legislation to bring government corporations generally within the scope of GAO's jurisdiction the question arose whether the Federal Reserve System should be subject to GAO audit. At that time the GAO supported exclusion of the Federal Reserve, based upon its judgment that there were already strong controls within the System and that the Reserve Banks were audited "frequently and thoroughly" under the direction of the Board of Governors. In 1952, when a subcommittee of the Joint Committee on the Economic Report under the Chairmanship of Congressman Patman once again considered this issue, the Acting Comptroller General of the United States informed the Subcommittee that nothing had occurred since the enactment of the Government Corporation Control Act in 1945 that would require any different view as to the need for a GAO audit of the Federal Reserve.

Twenty-five years later, I can state emphatically that at no time in the history of the Federal Reserve System has the Board's program of financial and operational audit and review of the Reserve Banks been stronger or more effective than it is today. While the GAO has now apparently departed from its historical position with respect to an audit of the System, that change cannot have been based upon an informed judgment that the Board's audit had deteriorated or is inadequate for today's environment.

As I have indicated, since the Reserve Banks account for almost 95 per cent of the expenditures of the System, an audit of the System essentially implies an audit of the Reserve Banks. The Board's expenses for its own operations during 1976 were only $39.5 million, of which 76.8 per cent was expended for salaries and related personnel expenses. While the Board of Governors itself is not subject to an audit by another governmental entity, its accounts are audited annually by a leading firm of independent public accountants and the results of that audit have been furnished regularly to the Congress. In addition to auditing the accounts of the Board, these outside auditors conduct a review and evaluation of the examination and auditing procedures employed by the Board itself in its own audit of the Reserve Banks. The auditor's report of that review has also been provided to the Congress along with the Board's *Annual Report*, which makes public the expenses of each Reserve Bank and of the Board.

We are, of course, aware that H.R. 2176 would exclude monetory policy transactions and deliberations from the scope of GAO's audit authority. Thus, the bill itself appears to reflect recognition of the need to protect the independence of the monetary authority and to limit the potential for intrusion into policy matters through a GAO audit. While we warmly endorse this objective, we believe that as a practical matter the enforcement of such limitations would be extremely difficult and that even a carefully circumscribed audit would be likely to encroach upon—or would at the least provide a means for encroaching upon—those judgments of the System that the Congress intended to be independent. There is not clear and easy demarcation between "monetary policy deliberations" and the many other functions performed by the Board. Monetary policy concerns inevitably become intertwined with bank regulatory and supervisory matters. Our current deliberations, undertaken at the request of the Congress, include questions of whether banks should be permitted to pay interest on demand deposits and whether the Federal Reserve should pay interest on reserves. These questions exemplify the difficulty of neatly segregating our functions. Although they appear to involve matters of regulatory policy, monetory policy considerations have permeated our discussions of these questions.

Similarly, Federal Reserve Bank operations cannot be neatly pigeonholed. Administration of the discount window, for example, is traditionally viewed as a monetary policy function, yet the proper performance of that function involves considerations of regulatory policy and matters relating to the soundness and condition of member banks. Similarly, our conduct of the process of bank supervision frequently gives rise to concerns that relate to the Board's responsibilities as the monetary authority Even the System's work of clearing checks and processing government securities has important impacts on policy implementation. For example, if check float rises sharply because of a computer malfunction, the open market desk must take this into account in planning its reserve operations.

The difficulty of segregating monetary policy functions so as to keep them outside the scope of a GAO audit is compounded by the fact that virtually every administrative expenditure or procedure of the System can be related ultimately to a policy function. No matter how carefully the scope of the audit may be limited, the potential will always exist that the audit may be used to impinge upon policy matters. Indeed, as we understand the GAO's new position on this subject, it believes that it *must* have access to monetary policy deliberations and transactions in order to perform its audit and program review function properly. In light of this we believe that the Federal Reserve's frequently repeated fear that even a limited GAO audit would constitute an "entering wedge" for the control of monetary policy is not unrealistic. Moreover, the congressional oversight embodied in House Concurrent Resolution No. 133 clearly provides the vehicle for monetary policy review and obviates the need for this new legislation from that standpoint. Under this Resolution the Chairman of the Board appears before the Congress every 3 months to report on the System's monetary policy targets and to review the condition of the economy. Similarly, the planned oversight hearings on the condition of the banking industry should supply the information the Congress needs for this aspect of the System's work.

We do not suggest that the Federal Reserve System is or should be beyond the scope of congressional oversight or that it should not be held accountable to the Congress for its expenditures. We do suggest—as GAO itself recognized over 30 years ago—that a detailed and effective audit of the System's expenditures and procedures is already being performed by the Board in response to a mandate from the Congress. Before the Congress takes steps such as those contemplated by H.R. 2176, which may fundamentally alter the nature of the System, it should consider evaluating the Board's performance of its statutory duty as the auditor of the Reserve Banks. The generally favorable results of the hearings under House Concurrent Resolution No. 133, through which we communicate with the Congress on monetary policy matters, has led the Congress to adopt this procedure as a means of facilitating congressional oversight on the condition of the banking industry. To achieve a similar relationship and understanding with the Congress with respect to the Board's performance of its statutory duty as the auditor of the Reserve Banks we suggest that the Congress consider holding annual oversight hearings on this subject. We are confident that if the Congress were to conduct such hearings it would conclude, as the GAO itself concluded in 1945 and 1952, that this function is being performed well and that there is no need for a separate or duplicative audit by GAO.

In this uncertain and inflation-prone world, it is worth noting that the lowest rates of inflation among the developed nations are evident in the countries that have relatively independent central banks. The abilities to restrict the growth of the money supply, to neutralize heavy inflows of foreign capital, or to insist upon public marketing of government deficit financing are tests of the independence of a central bank. Similarly, the freedom to exercise an independent judgment on the credit needs of an economy, to resist the short-run expedient clamors for easy credit, and to make the hard long-range impact decisions so necessary for improving our opportunities for economic stabilization are hallmarks of objective central bank policy formulation. Determination of its own budget needs and freedom from outside audit and influence on its allocation of expenses are indispensable elements in this fabric of independence.

In our opinion, the Congress should consider carefully the implications of this proposed legislation that will begin the process of compromising the objectivity and impartiality of central bank judgments. The Congress already has an oversight of monetary policies pursuant to House Concurrent Resolution No. 133, but could easily under this proposed bill slip into a dominantly influential position on monetary policies through audit criticisms or budget comments without the responsibility for those policies, and thereby, severely weaken the central bank's position.

Central bank independence has been eroded or extinguished in a number of countries over the postwar period by subjugating the banks either to finance ministers' domination or parliamentary control. I am convinced that this loss of independence has been a significant factor in the weakening of monetary control and has led to a heavy stimulus to inflation. If the Congress is concerned about the rate of money supply growth as an important element in inflation, it should look with special care upon the monetary growth in countries where central banks cannot exercise relatively independent policy judgments. □

Statement by Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1977.

As you know, Mr. Chairman, I attach special importance to this meeting today at which I shall report to you, on behalf of the Board of Governors of the Federal Reserve System, on the condition of the banking system.

This hearing, the first of its kind for this committee, is an outgrowth of our shared judgment—the committee's and the Board's—that there ought to exist an official forum for objective and systematic review of our banking system. Certainly from the Board's standpoint, there has been a regrettable lack of balance at times in the past several years in public discussion of banking matters. It is our hope, which I am sure you share, that hearings of this kind will contribute to better understanding of the performance of the Nation's banking system and in so doing will bring individual banking problems into better perspective.

A few years ago it would have been difficult to generate broad interest in the kind of review this committee is now initiating. The reason, obviously, is that from the standpoint of the public the Nation's banking system was adjusting well to the general growth of the economy. During the decade of the 1960's, bankers progressively shed much of the caution that had carried over from the Great Depression and—freed, as they came to be, of some of the restraints imposed on them—they began to do things that were impressively creative.

That history of change during the 1960's is reasonably well known, and I need not dwell on it. In brief, what bankers did was to reach out for new business far more aggressively than they had formerly. To that end, they devised new techniques—many highly ingenious—for gathering deposits and making loans. They opened offices at a rate much more rapid than the growth of the Nation's population, and increasingly extended their operations to new geographic areas and functions. Banks that previously served only local markets sought to become regional in scope; regional banks moved to establish a national presence; and our Nation's largest banks looked more and more to opportunities abroad. As long as such growth was outwardly free of signs of strain—as it generally was for more than a decade—the development met with broad approval. Complaints were few—except, of course, from banking's competitors, who were understandably unenthusiastic about banking's new display of entrepreneurial energy and talent. Consumers and businessmen could only be pleased by the enlarged range of banking services and the more intense competition among financial institutions.

There is, however, another side to the ledger. As often happens with evolutionary change that is essentially constructive, the pendulum swung too far too quickly. Excited by the profit gains, which the drive for growth yielded in the 1960's, a good many bankers paid less heed than they should have to traditional canons of banking prudence.

Most importantly, the growth of loans and investments in the banking system proceeded much more rapidly than did additions to the base of equity capital. Commercial bank assets increased at an average annual rate of 9 per cent in the decade of the 1960's and at the even more rapid rate of 15 per cent in the first 3 years of the 1970's. In both periods, the rate of growth of bank assets appreciably exceeded the growth in the dollar value of the Nation's production—a fact indicative of the determined efforts banks were making to enlarge their share of total financing activity.

The consequence of the hard push for growth was that, by the end of 1973, equity capital was equivalent to only about 6½ per cent of total bank assets—down sharply from 9 per cent at the end of 1960. Moreover, the equity capital of banks had been leveraged by some parent holding companies, which used funds raised in debt markets to increase equity investment in their subsidiary banks.

That thinning of the capital cushion would have been reason enough for some uneasiness about banking trends as we moved into the 1970's. But there were other reasons as well. Of key importance was the particular way in which asset growth was achieved. The 1960's witnessed the birth and rapid spread of so-called liability management by banks—a technique that in practice involved heavy reliance on borrowed funds, often very short-dated funds, to accommodate loan requests. Thus, uneasiness was engendered not only by the rapid expansion of assets relative to equity but also because that expansion rested so heavily on volatile resources.

The unease was accentuated by the fact that, in addition to the rapid growth of loans, commercial banks proceeded with a rapid build-up of commitments to their customers to make additional loans in the future. A suspicion, moreover, that banks had to some extent compromised previous standards of asset quality in their drive for growth added to concern in the early 1970's. So, too, did realization that the holding company device had carried bankers into terrain that was relatively unfamiliar. Finally, the advent of widespread floating of currencies produced keen awareness that many of the Nation's larger banks, by virtue of their international involvement, had become exposed to additional risks. In sum, as the decade of the 1970's began, apprehension was emerging—and this was not confined to banking regulators—that the innovations and developments of the 1960's, welcome as they were in many respects, posed some formidable challenges.

Such uneasiness as existed in the public mind with respect to trends in banking remained relatively mild, however, until 1974. The failure of U.S. National of San Diego in October 1973, followed some months later by the well-advertised difficulties of Franklin National and Bankhaus Herstatt, both ending in failures, transformed the incipient unease into serious apprehension. Indeed, for the first time since the 1930's major doubts began to be voiced here and there about the soundness of our Nation's, and indeed the world's, banking system.

The unhappy closing in our country of two large banks—U.S. National and Franklin National—was handled by the regulatory authorities in a manner that caused a minimum of disturbance to their customers and no loss at all to their depositors. Even so, public concern about banking continued. In fact, it still lingers on in some degree, having been nurtured since 1974 by a succession of troubling events and revelations.

Financial strains associated with the quantum jump in oil prices—involving as they did huge borrowing by oil-deficit nations—have contributed to unease about the health of banking. So too has the severity of the recent recession—itself the product of an inflationary environment that fostered widespread speculation. The slump in business activity triggered a number of major business bankruptcies entailing some well-publicized loan losses for banks. The recession, moreover, laid bare the financial weakness of many real estate investment trusts, which, as is well known, are heavily in debt to our Nation's banks. And the recession also played a part in exposing New York City's financial difficulties, thus bringing to acute national consciousness the risk exposure of commercial banks—particularly, but by no means exclusively, the large New York banks—to the vicissitudes of municipal finances.

All of these events have at times made for nervousness about the condition of banking, and that situation may not change quickly. A number of the problems impinging on banks—for example, those related to international oil financing and those having to do with New York City—are almost certain to keep coming back into the headlines. Then, too, loan losses and loan problems often continue months or even years after a recession in economic activity has ended. The recent recession illuminated the bad credits, indeed to a large extent caused them, but considerable time will be required for troubled debtors to work out their financial difficulties. Hence, the total amounts of questionable loans, and the number of banks classified as problem banks because of a sizable volume of such loans, may not diminish rapidly even in an upbeat economy. We ought to expect that and not be surprised by such disclosures.

On behalf of the Federal Reserve, I am pleased to report that our analysis leads to the conclusion that the Nation's banking system has passed well beyond the worst of its recent difficulties and is in fact regaining strength steadily. This is the product of several influences—among them, corrective actions taken by the banks on their own initiative, supervisory pressure for better performance, and the recovery that is under way in the general economy.

All of the widely used measures of bank-capital position have shown definite improvement since 1974, reflecting a combination of much slower growth in banking activity and sizable additions to capital resources. Total loans and investments of commercial banks have increased at an annual rate of approximately 5½ per cent during the past 2 years, only about a third of the pace that prevailed in the opening years of this decade. A major part of the slowdown reflects, of course, the subsidence of credit needs occasioned by the state of the economy and the increased reliance of business firms on public debt markets. But there also has become discernible a greater sense of caution and selectivity on the part of bankers in extending credit. Meanwhile, in order to bolster their capital, banks have raised substantial sums in the longer-term debt market, and they have also added to their equity base both by stepping up sales of new stock and by continuing to pursue conservative dividend policies.

Fortunately, our Nation's banks have enjoyed relatively good profits, in part because of a new cost consciousness that has manifested itself not just in go-slow policies affecting the scope of operations but in some instances also in personnel reductions—something that until recently was wholly uncharacteristic of the banking industry. Earnings of banks have been big enough, taken in the aggregate, to absorb the large loan losses that have occurred in lagged response to the recession and yet permit moderate gains in net income. This performance of profits has been a key factor, of course, in enabling banks to strengthen their capital position by retaining a large part of earnings. It is also worth noting that in many of the larger banks, profits have been bolstered by exceptional income gains growing out of international activities.

The ratio of bank equity to total assets that I mentioned earlier as having fallen to 6½ per cent at the end of 1973 recorded no significant deterioration thereafter. It tended to stabilize in 1974, then improved modestly in 1975, and modestly again through the middle of 1976, when it approached 7 per cent. Other available measures of the status of bank capital—those that take debt capital into account as well as equity and which focus on risk assets rather than total assets—show either equal or greater strengthening. In particular, the ratio of total capital—that is, equity plus subordinated debt—to risk assets rose by more than a full percentage point between the end of 1974 and mid-1976, when it reached 10.2 per cent. Significantly, this improvement in bank capital positions has occurred for all size classes of banks, from the smallest to the biggest.

The growth of bank assets has not merely slowed, but—as is typical in strength-rebuilding phases of the kind now proceeding—there has been a decided improvement in the composition of newly acquired bank assets. Between the end of 1974 and the end of 1976, commercial banks added enormously to their holdings of U.S. Government securities—in all, about $47 billion. This emphasis on liquid assets has strengthened the general quality of bank asset positions. Moreover, in view of the chastening experience so many banks have had, loan officers have typically been exercising greater care in extending new credit.

Besides the improvement in asset composition, there has been a diminished emphasis by banks on accommodating expansion of their portfolios by relying on short-term borrowed funds. The total of so-called managed liabilities of large banks declined between December 1974 and December 1976, despite a substantial rise in the over-all liabilities of these banks. The relative dependence on borrowed funds that are potentially very volatile has thus decreased. At present, the average ratio of managed liabilities to the total assets of large banks is some 6 percentage points below the high recorded in the summer of 1974.

As I stated earlier, it would be unrealistic, even with the improvement now occurring in asset quality, to expect a rapid change in the loan-loss experience of banks. Banks for some time will continue to wrestle with the legacy of loans that turned sour during the recession. Complete information on loan-loss experience is not yet available for 1976. But such data as we do have indicate a flattening tendency in the net loan losses of commercial banks, measured as a percentage of loans. That is an encouraging change from 1975, when loan losses climbed sharply. Strengthening the impression that a turn for the better has occurred is the fact that during 1976 a decline was recorded in the proportion of past due loans of national banks. Moreover, preliminary data for 1976 on bank assets classified by bank examiners as substandard or worse also suggest that the dollar amount of classified loans is no longer rising. Thus, some signs of improvement in bank loan experience have appeared, and these should multiply as expansion of the economy continues and gives support to the financial position of bank customers.

Essentially the same stabilizing tendencies are evident with regard to banks classified by banking agencies as being in the "problem" category. When a bank is placed in such a category, this simply means that it requires special supervisory attention. The number of such banks increased sharply in 1974 and 1975, but it has since then remained substantially unchanged. For purposes of evaluation, it is important to bear in mind that the composition of these lists changes frequently as difficulties are identified by the regulators and resolved by the institutions. Thus, no inference of a lack of progress in overcoming specific problems should be drawn from the recent relative stability in the over-all number of banks on such lists. In particular, the recent stability of numbers does not mean that there is a set of chronic "hardcore" cases that defy remedy. We should, moreover, keep in mind the fact that the overwhelming majority of our commercial banks do not require special supervisory attention.

The so-called problem banks represent only a small percentage of the total number of commercial banks in the United States—less than 5 per cent even at the worst readings of recent years. And, of course, the number of banks that actually fail is a small percentage of so-called problem banks. The incidence of failure in the banking industry is, indeed, very much smaller than in other lines of business. In the difficult period from 1973 through 1976, there were only 39 bank failures in the United States and most failing institutions were relatively small. As a rule, the supervisory agencies were able to arrange takeovers of the failed institutions by healthy banks. Few were liquidated; thus services to customers were generally uninterrupted, and losses to depositors on uninsured balances were minimal.

The Federal Reserve Board expects the gradual improvement that is under way in the condition of the banking system to continue. Our anticipation that the general economy will expand at a good rate during 1977 and on into next year is, of course, critical to that judgment. But other important reasons also suggest further strengthening in the banking situation.

By no means the least of these is the sobered mood of bankers. The difficulty experienced by some banks in issuing certificates of deposit at times during 1974 or 1975 has clearly left its mark. So has the embarrassment that certain institutions suffered in having to pay a premium rate on their certificates of deposit. Fresh is the memory, also, of the cost and strain many banks experienced in making good on liberally granted commitments to extend credit. Such things as these, combined with the shock of heavy loan losses, appear to have significantly altered the psychological framework within which banking decisions are made. Liability management no longer seems quite so wondrous to many bankers, and there is clearly a new degree of appreciation that commitments to lend ought not to be undertaken lightly. Having learned the hard way that the business cycle is, after all, very much alive, most bankers are likely for a time to apply stricter standards than they did a few years ago in making credit judgments. All in all, the banking industry is exhibiting considerable caution, which extends both to the traditional range of banking operations and to the nonbanking activities of holding companies. This should help to clear up old problems and avoid new ones.

Not only bankers but also their customers are in a more sober mood and this, likewise, bodes well for progress towards a healthier banking industry. Business managers in particular—stung by their own discovery that the business cycle is not yet dead and that huge risks are entailed in enlarging balance-sheet totals through short-term borrowings—have been hard at work putting their houses in order. They have sold sizable amounts of both long-term bonds and equity securities and have used the proceeds of these sales largely to reduce short-term bank debt and to increase their liquid assets. Those developments, together with the continuing improvement of corporate earnings, certainly ought to result in fewer new bad-loan problems for banks and also should help progressively in cleaning up existing problems.

I can, moreover, assure this committee that the Federal Reserve Board will make every effort to see to it that the current trend toward a strengthened banking situation continues. The Board in its regulatory and supervisory actions is adhering basically to the cautionary thrust that was formally initiated in the spring of 1973.

There has been no significant departure, for instance, in our "go-slow" policy toward expansion of bank holding company activities. The list of activities generally permissible for these companies has not been expanded since early 1974, and the Board has recently determined that two requested activities are not to be permitted. Individual companies have been allowed to expand into new areas only when the Board has been satisfied with their financial condition and managerial capabilities. On the other hand, companies whose asset composition, capital, or liquidity raises doubts ought by now to know that the Board will be extremely skeptical of proposals that divert financial or managerial resources to new undertakings. Partly as a result of pointed denial of various applications to undertake new investments—through which the Board has signalled to the market its "go-slow" policy—the number of requests filed with the Federal Reserve has sharply diminished in the past 2 years. Moreover, in some instances in which applications for expansion have been approved, the authority to proceed has been made conditional on improvement of the applicant's capital base.

The Board intends to continue using such leverage in the interest of assuring further improvement in the condition of the banking system. The capabilities of the Federal Reserve to exercise a constructive influence on banker attitudes and actions are numerous, even though our power to deal with certain problem areas is inadequate. Perhaps of greatest significance is the fact that the examination and supervisory process is being strengthened by expanded and more timely surveillance, thereby enhancing our ability to identify problems and to respond to them at an early stage. Parallel developments to strengthen monitoring and follow-through capabilities are under way in the office of the Comptroller of the Currency and at the Federal Deposit Insurance Corporation. Coordination of efforts among the three agencies is, of course, frequent.

The conclusion of the Federal Reserve Board that the condition of the banking system is improving does not mean that we are taking anything for granted or that we see no problems. The wiser attitude that now appears to prevail among bankers needs to be tested as the expansion in economic activity proceeds. Memories—however painful—can sometimes be short. Should we find that the lessons of the recent past—concerning capital adequacy, excessive reliance on volatile funds, or expansion into unfamiliar areas—are no longer generally respected by bankers, the Board will be ready to take whatever action seems appropriate.

Nor, even now, despite steady improvement in real estate markets, do we have any complacency about the involvement of banks and bank holding companies in real estate investment trusts (REIT's). Many of these trusts have avoided bankruptcy only because of the forbearance of creditors, and from the strained and often touchy relationships that inevitably exist in such a situation, sudden flare-ups of trouble are always possible. A number of REIT's face a significant increase of maturing medium-term debt later this year and in 1978. This situation demands close attention, with the prospect that more REIT-related losses lie ahead for banks and that it will be a long while before the messy problems in that area have been resolved.

Much the same is true of the financial difficulties of New York City in which the New York banks have such a substantial stake. The working assumption must be that a solution calming to financial markets will be devised, but simple prudence demands that the Federal Reserve System, because of its responsibility for containing shocks to financial markets, be alert to any sudden untoward turn in that troublesome situation.

Another area of concern with respect to the soundness of our banking system is the continued attrition in Federal Reserve membership. In 1976, 46 banks chose to give up membership and 8 banks left the System as a result of mergers with nonmembers. Over the past 8 years a total of 427 member banks have withdrawn from the System, and an additional 91 have left as a result of merger. These banks have left mainly because of the high cost of the non-interest-earning reserves that they are required to hold as members of the Federal Reserve. Not a few of the banks that dropped out of the System, being financially weak, faced a desperate need to cut costs and improve profits. At present 60 per cent of insured commercial banks, accounting for about 25 per cent of deposits, are outside the Federal Reserve System.

Unless the trend toward nonmembership is reversed, the soundness of the banking system will be jeopardized by the fact that so many banks will not have direct access to the Federal Reserve discount window. The availability of the discount window—as was demonstrated dramatically in 1974—is an important element contributing to the stability of our banking system. There should be no assumption that correspondent banks will always be able to afford assistance to nonmembers. This is a problem that warrants priority attention by this committee and the full Congress.

The Board also would like to see this committee focus as soon as it reasonably can on gaps that continue to exist in the supervisory powers of the agencies that regulate banks. On January 31 of this year, the Board, as you know, forwarded to this committee a regulatory reform bill that we believe would contribute materially to better bank supervision.

Our draft bill proposes, among other things, the creation of a statutory inter-agency bank examination council that would establish uniform standards and procedures for Federal examination of banks. The bill would also place statutory limits on loans to insiders. As the committee is aware, problems with insider loans have been a major contributing factor in a number of bank failures. In addition, we see a need for change in existing "cease and desist" authority. At present the Board cannot remove bank or bank holding company officers for anything less than a showing of personal dishonesty. We believe that authority for removal, with appropriate safeguards, ought to extend as well to gross managerial negligence.

The bill we have proposed would also permit out-of-State acquisition of large banks in danger of failure. When adverse developments trigger deposit losses that seriously weaken a bank, it may be necessary in the public interest to combine the weakened institution with a larger and stronger bank. As you know, this recently occurred in New York and California, where large in-State banks were available to acquire the problem banks involved. Had institutions of the size of Franklin National or U.S. National failed in certain other States, no in-State bank would have been large enough to acquire them. In such circumstances, the ability to arrange acquisitions across State boundaries would become urgent.

These specific legislative changes would be helpful. From a broader perspective, it is vital to make membership in the Federal Reserve more attractive—perhaps by providing for lower reserve requirements or allowing the System to pay interest on the reserve balances that member banks maintain. Moreover, in view of the expanding presence of foreign banks in the United States—with assets here that now exceed $75 billion—the Board believes it important to subject foreign banks to the same Federal rules and regulations that apply to domestic banks. To strengthen our banking system, we therefore urge adoption by the Congress of legislation on foreign banking such as the House of Representatives passed last year.

I have dwelt thus far on the condition of the banking system in relation to the activities that banks carry on in our domestic markets. A proper assessment must take into account as well the role of our banks abroad. That role has expanded enormously, and the pace of growth has been especially fast in the last several years. The indebtedness of foreigners to U.S. banks and their foreign branches rose annually during the past 3 years by about 20 per cent. It is important to recognize in this connection that most of the expansion in foreign lending by our banks has been made possible by funds raised abroad.

As the world economy keeps getting bigger, some year-to-year increase in the international loan portfolios of U.S. banks is a normal occurrence. But the recent pace of bank lending to foreigners goes beyond anything that can be explained in terms of the growth of either world economic activity or international trade. In addition, it reflects three developments: first, the enormous rise of financing needs around the world that was occasioned by the quintupling of oil prices; second, the willingness of American banks to respond to those financing needs; third, the growth of multinational corporations and the internationalization of banking through the Euro-currency markets.

The sharp increase of oil prices did not in and of itself give rise to a need for financing activity of the kind American banks have been engaged in. Theoretically, at least, the Organization of Petroleum Exporting Countries (OPEC) group, recognizing the severe payments imbalances they had caused, could themselves have become bankers on a major scale. We know, of course, that they largely avoided the route of extending credit directly to the countries that were buyers of their oil but instead funneled their huge surpluses into a variety of financial assets—chiefly bank deposits. They thereby shifted the banking opportunity—and with it, of course, the burden of credit evaluation—to others, which meant mainly the large American and European banks that the OPEC group used as depositories. The fact that things might have happened otherwise is something we should not forget, since in the years immediately ahead—if serious oil-related payments imbalances persist—it may yet be necessary to urge upon the OPEC group a much more active role as bankers than they have so far played.

American banks, as is well known, responded along with other banks to the "recycling" challenge, serving since 1974 a very substantial intermediary role between the OPEC group and the countries whose external payments had deteriorated because of OPEC pricing. The fact that loan demand within the United States was relatively weak in 1975 and 1976 undoubtedly has been a factor helping to sustain an unusually high rate of foreign lending activity by our banks.

The sharp increase of oil prices, to say nothing of the worldwide recession, caused extensive dislocations in the world economy; but much more serious difficulties would have occurred if commercial banks here and elsewhere had not acted as they did. There simply was no official mechanism in place in 1974 that could have coped with recycling of funds on the vast scale that then became necessary. The supportive role that American and other commercial banks played in this situation thus prevented financial strains from cumulating dangerously, and this role continues even now. Certainly, our export trade and the general economy have been helped—and are being helped—by banking's role in international lending.

This is not to say there have been no excesses or that expansion of international lending by American banks can continue at an undiminished pace. Even though losses on foreign loans have been small—indeed, relatively smaller than on domestic loans—the Federal Reserve Board is concerned about the enlarged risk exposure of our banks. I personally have voiced apprehension about various aspects of these international lending activities in both private and public discussion.

The rapid expansion of credit to the non-oil "less developed countries" (LDC's) warrants particularly close attention. The total indebtedness of such countries to American banks alone approximated $45 billion at the end of 1976. These countries also owe substantial sums to foreign banks, official institutions, and others. The fact that the aggregate external indebtedness of these countries may run to something like $180 billion has been well publicized.

Of course, total debt figures—and more importantly the interest charges flowing from them—need to be viewed in the context of the levels of production and exports of the non-oil LDC's. Looked at in those terms, they are decidedly less worrisome. Nevertheless, the ratio of the external debt to exports and also the ratio of the external interest burden to exports have deteriorated for most non-oil LDC's in recent years, although some stabilizing tendencies did emerge in 1976. In some countries, such ratios have reached levels that justify serious concern and that point to the need for determined stabilization policies. In the absence of such policies, difficulties may be encountered in rolling over existing debt or borrowing to meet new requirements.

This situation demands a heightened sense of caution on the part of our banks in managing their international loan portfolios, and such caution does in fact appear to be emerging. Here too, though, the Board will be watchful of developments. As part of a broader effort to improve knowledge of international lending activities, we are currently engaged in a joint project with other central banks to obtain a more accurate size and maturity profile of the indebtedness to banks of individual countries. Such data should prove useful to bankers as they proceed to evaluate credit requests by foreigners. The Board has communicated its intent to be both helpful to banks and watchful of their activities. The latter point is currently being signaled, for example, by an informal survey of bank practices in defining, monitoring, and controlling risk in international lending.

The Board's judgment about the condition of the international loan portfolios of American banks is not easily summarized. We have been concerned with the rapidity of the rise in foreign lending, and we believe that here and there a slowing must occur—to rates of growth, generally, that are consonant with expansion of the debt-servicing capabilities of individual borrowing countries. Such slowing, it should be appreciated, may well involve some problems for the international economy, since the structural payments imbalances that have occasioned such heavy bank lending to foreign countries are not going to disappear rapidly. The inference is clear that a strong cooperative effort is more than ever necessary—involving, among others, official international agencies, the Group of Ten countries, OPEC, the non-oil LDC's, and the private banks. Unless we succeed in devising sound financial alternatives, serious strains in the world economy may develop.

In closing, let me say that I am sensitive to the fact that the statement I have made this morning—despite its length—by no means reviews the condition of our banking system as fully as would be desirable. Some of the matters I have touched on are extremely complex, and that inherently creates risks that relatively brief treatment may give rise to misunderstandings.

I particularly hope that the emphasis I have placed on the need for caution in credit extension will not be misunderstood. In banking, as in other pursuits, a fine line exists between being too cautious and not being cautious enough. At the Federal Reserve Board, we certainly do not want caution to be overdone in the sense of having our bankers be unresponsive to the needs of creditworthy borrowers, either at home or abroad. Nor do we as supervisors, despite our obligation to be watchful, seek to substitute our judgments for those of on-line bankers in deciding who should get credit. We have neither the capacity nor do we have the desire to play such a role.

The legitimate credit needs of our citizens and our businesses must be met if our economy—and indeed the world economy—is to prosper. It is precisely for that reason that the Federal Reserve is pursuing a policy of adding steadily to our banking system's resources, and yet doing so on a scale that will not reignite the fires of inflation. Our banks are in a good position to serve the needs of their communities. They have been extending impressive amounts of credit to consumers, to farmers, and to those in need of mortgage credit. As the demand for business credit strengthens, that too will be reasonably accommodated. I hope that in dwelling on other considerations this morning, I have created no misimpressions about this critical matter. □

Record of Policy Actions of the Federal Open Market Committee

MEETING HELD ON JANUARY 17–18, 1977

1. *Domestic Policy Directive*

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services (real gross national product) had slowed to an annual rate of 3.0 per cent in the fourth quarter, from 3.9 per cent in the third quarter and 4.5 per cent in the second. Such estimates also indicated that average prices—as measured by the fixed-weighted index for gross domestic business product—had risen at an annual rate of 5.0 per cent in the fourth quarter, compared with 4.3 per cent in the third and 5.2 per cent in the second.

According to those estimates, a sharp curtailment in business inventory accumulation during the fourth quarter had been the main factor in the reduction of growth in real output. The rise in business expenditures for fixed capital had also slowed, but total final purchases had risen at a somewhat more rapid pace than in the third quarter; in fact, at an annual rate of 4.8 per cent, growth in real final sales exceeded that in the first two quarters as well. In the fourth quarter personal consumption expenditures had expanded sharply and residential construction had risen at an accelerated pace.

The staff projections suggested that the rate of growth in real GNP would increase appreciably in the first quarter of 1977 as the decline in business inventory accumulation came to a halt. Growth in final purchases of goods and services in real terms was projected to be sustained; it was expected that the rise in business investment in fixed capital would pick up while the expansion in personal consumption expenditures and in residential construction would moderate somewhat from the high rates in the fourth quarter of 1976.

Staff projections for subsequent quarters of 1977 incorporated assumptions that rebates of Federal income taxes and one-time payments to recipients of social security would be disbursed in the second quarter; that both personal income taxes and corporate taxes would be reduced; and that Federal spending for job-creating programs would be expanded. Reflecting these assumptions as well as expectations of a strengthening in business fixed investment, the projections suggested that real GNP would grow at a moderately faster pace than in the first quarter. It was expected that the rate of increase in the fixed-weighted price index for gross business product would change relatively little during 1977.

Retail sales—which had strengthened considerably in October and November—were indicated by the advance estimate to have risen sharply further in December, with gains fairly widespread among categories of stores. The rise in the fourth quarter as a whole had been much larger than that in the third.

The number of new domestic automobiles sold rose to an annual rate of about 9⅓ million in December, the highest rate in more than 3 years. To some extent, however, the rise reflected recovery from the strike that had limited sales in October and November; sales for the fourth quarter as a whole—at an annual rate of about 8¼ million—were down a little from the third-quarter pace. The number of foreign models sold was the same in the fourth quarter as in the third.

Indicators of residential construction activity had remained strong in recent months. Private housing starts rose sharply in December to an annual rate of more than 1.9 million units, the highest since August 1973. Starts in the fourth quarter, at an annual rate of about 1.8 million units, were up 15 per cent from the third quarter. Although residential building permits declined somewhat in December, from the third to the fourth quarter they rose about as rapidly as starts. Mortgage commitments outstanding at savings and loan associations had risen $1 billion further in November to a record level of $24.5 billion.

In contrast with developments in markets for consumer goods and services and for housing, current indicators of business fixed investment had been relatively weak. New orders for nondefense capital goods had declined sharply in November, and the average for October and November was only a little above that for the third quarter. Contract awards for commercial and industrial buildings—measured in terms of floor space—also had declined sharply in November and the average for October and November was below that of both the second and the third quarters.

Moreover, such indicators of business investment as shipments of nondefense capital goods, sales of trucks, and expenditures for nonresidential construction suggested that actual business outlays for plant and equipment would not show the strong gain in the fourth quarter that had been indicated by the Department of Commerce survey of spending plans taken in late October and November. That survey had also suggested that the increases planned for the first two quarters of 1977 would be no greater than the rise in prices. On the other hand, a later Department of Commerce annual survey, conducted in December, indicated that businesses were planning to spend 11.3 per cent more for plant and equipment in 1977 than in 1976. Thus, it appeared that the shortfall in the fourth quarter of 1976 might be made up early in 1977 and that capital spending might strengthen further during the course of the year.

The index of industrial production—which had risen 1.2 per cent in November, more than recovering the losses in the preceding 2 months caused in part by strikes—rose 0.7 per cent further in December. Expansion in production of motor vehicles accounted for a large share of the over-all gain in December, but increases were widespread among other final products and also among materials other than metals. Over the 12 months ending in December 1976 the total index had risen about 7 per cent.

Payroll employment in nonfarm establishments expanded considerably in December—reflecting mainly increases among the service-producing industries, although employment in manufacturing also increased somewhat. The average factory workweek was unchanged, after having recovered in November from the effects of strikes. As measured by the household survey, total employment had increased in December while the civilian labor force had changed little, and the unemployment rate declined from 8.1 to 7.9 per cent. Most of the reduction in unemployment was among adult men; for this group, the rate declined from 6.5 to 6.2 per cent.

The advance in personal income—which had been large in November, in part because of the ending of major strikes—was even larger in December. Gains in wage and salary payments were widespread among industries, and large increases were reported for farm proprietors' income and for dividend payments.

The index of average hourly earnings for private nonfarm production workers advanced at an annual rate of about 5 per cent in December, somewhat less than in the two preceding months. Over the 12 months of 1976 the index rose about 6¾ per cent, compared with about 8 per cent over the 12 months of 1975.

The rise in the wholesale price index for all commodities remained rapid in December. Average prices of farm products and foods rose substantially, in large part because of sizable increases for pork, oilseeds, coffee, cocoa beans, tea, and fresh fruits and vegetables. The rise in average prices of industrial commodities—which had accelerated around midyear—slowed to a relatively low rate, mainly reflecting a reduction in prices for natural gas. Sizable increases were recorded for steel mill products, fabricated metal products, lumber and wood products, and refined petroleum products. Over the 12 months ending in December, the index for all commodities rose about 4¾ per cent, as industrial commodities advanced about 6½ per cent and farm products and foods declined about 1 per cent.

The average value of the dollar against leading foreign currencies declined in December, but then it recovered somewhat as U.S. market interest rates rose not only in absolute terms but also in relation to rates in European markets. The pound sterling strengthened following negotiation of a $3.9 billion standby arrangement with the International Monetary Fund and subsequent announcement of a plan to seek an orderly reduction in the reserve currency role of sterling.

The U.S. foreign trade deficit increased in November, and the average for October and November was close to the substantial rate for the third quarter. For the 2-month period both exports and imports were somewhat below their high rates in the third quarter.

Total credit at U.S. commercial banks rose little during December after 2 months of sizable increases. Bank holdings of Treasury securities and of mortgages expanded during December, but bank holdings of other securities declined; outstanding loans to businesses contracted slightly following 2 months of appreciable expansion. Over the fourth quarter bank loans to businesses grew at an annual rate of about 9½ per cent. However, about one-third of the growth in such loans represented acquisitions of bankers acceptances by some commercial banks.

The volume of commercial paper outstanding rose sharply during December for the second consecutive month. The volume issued by nonfinancial corporations expanded appreciably, after having declined in October and having risen only a little in November. Over the fourth quarter the combined total of nonfinancial commercial paper and business loans at banks grew at an annual rate of almost 10½ per cent.

The narrowly defined money stock (*M*-1),[1] which had grown at an annual rate of almost 14 per cent in October and had been unchanged in November, expanded at a rate of about 8 per cent in December. From the third to the fourth quarter, *M*-1 grew at a rate of 6 per cent. Over the year from the fourth quarter of 1975 to the fourth quarter of 1976, growth had been about 5½ per cent.

Growth in *M*-2 and *M*-3[2]—which had moderated in November but had still remained substantial—accelerated somewhat in December, reflecting the renewal of growth in *M*-1. Inflows of the time and savings deposits included in these broader aggregates were almost as large as in November. Although there had been reports of recent reductions in interest rates paid on these deposits by some institutions, such rates in general remained more attractive than yields available on competing market instruments. From the third to the fourth quarter, *M*-2 and *M*-3 grew at annual rates of about 12 and 14 per cent, respectively. Over the year ending in the fourth quarter of 1976, growth had been 11 per cent for *M*-2 and 12¾ per cent for *M*-3.

At the December meeting, the Federal Open Market Committee had decided to maintain prevailing bank reserve and money market conditions, provided that monetary aggregates appeared to be

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[1] *M*-1 is composed of private demand deposits and currency in circulation.

[2] *M*-2 includes *M*-1 and commercial bank time and savings deposits other than large denomination certificates of deposit. *M*-3 includes *M*-2 and deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

growing at about the rates then expected. Over most of the inter-meeting period incoming data suggested that the aggregates were growing at about the expected rates, and the Manager of the System Open Market Account conducted operations with a view to maintaining the Federal funds rate close to 4⅝ per cent—the level prevailing at the time of the December meeting. Near the end of the inter-meeting period, incoming data began to suggest that over the December–January period growth in *M*-1 would be somewhat above the range that had been specified by the Committee but that growth in *M*-2 would be near the midpoint of its range. With the Committee scheduled to meet in a few days, the Manager continued to aim for a Federal funds rate of about 4⅝ per cent, although with a little greater willingness to tolerate small deviations above that rate than below it.

Interest rates generally changed little during the latter half of December. In early January, however, substantial upward pressures developed, particularly on rates for intermediate-term Treasury issues—in part, apparently, because market expectations of some further decline in the Federal funds rate were not realized. Interest rates also appeared to be influenced by indications of improvement in the outlook for economic activity, by a more rapid rate of growth in *M*-1 than had been generally anticipated, and by announcement of the incoming administration's fiscal proposals. Advances in rates over the inter-meeting period ranged from 10 to 40 basis points for short-term instruments, from 45 to 60 basis points for intermediate-term Treasury issues, and from 10 to 25 basis points for long-term corporate and Treasury bonds.

Gross issues of bonds offered to the public by domestic corporations amounted to nearly $2½ billion in December—more than twice the reduced volume of November—and the total of such issues in January was expected to exceed $3 billion. Most of the new offerings in December had been from lower-rated industrial and finance companies, but in January a number of highly rated industrial companies were also offering new issues, apparently to take advantage of the still relatively favorable interest rates. In addition, several utility companies announced intentions to advance-refund or to call bonds issued in 1969 and 1970 when interest rates on such obligations had been substantially higher.

Although the volume of new State and local government bond offerings dropped in December, it was large for the fourth quarter as a whole. Declines in rates on municipal bonds to relatively low levels in the fourth quarter had encouraged State and local governments to pre-refund higher-cost issues, to accelerate offerings that had been scheduled for later dates, and to continue reducing their reliance on short-term issues. In 1976 the volume of new issues of State and local government bonds was nearly 15 per cent larger than in 1975—the previous record year—while the volume of short-term financing declined.

The U.S. Treasury had raised $4 billion of new money in the 5 weeks since the December FOMC meeting, and it was expected to raise a larger amount in the 4 weeks following this meeting. The terms of the Treasury's mid-February refunding were due to be announced on January 26. Of the issues maturing in mid-February, only $2.1 billion were held by the public, and the Treasury was expected to take that occasion to raise several billion dollars of new money.

In primary mortgage markets, rates on new commitments for conventional home loans declined in December and early January. In secondary mortgage markets, rates declined during December by more than in the primary markets, but they turned up in early January along with yields on other market securities.

It appeared likely that over-all demands for funds in securities markets would continue to be sizable during the months just ahead. Cash borrowing by the U.S. Treasury and Federal agencies combined was expected to remain large. Bond issues by business corporations and State and local governments seemed likely to continue heavy, partly because of widespread expectations that interest rates would be advancing later in the year. At the same time, however, it appeared likely that institutional investors would continue to have a sizable volume of funds available for investment in bonds.

In the discussion of the economic situation at this meeting, members of the Committee agreed that the outlook for growth in real output of goods and services had strengthened. Attention was called to the recent surge in retail sales—and the resulting improvement in inventory positions—and to the increasing strength in housing starts. It was suggested that, as a consequence of recent developments, business fixed investment was likely to increase more during the coming year than had been expected heretofore and that expansion in over-all economic activity might well accelerate to a relatively rapid pace. It was also observed, however, that even if growth in real GNP during 1977 were significantly greater than projected by the staff, rates of resource use in the fourth quarter of the year still would not appear to be excessive; indeed, unemployment would still be relatively high. Because of the character of the fiscal measures in prospect and for other reasons, one or two members remarked that the rate of expansion in economic activity in 1977 was likely to be uneven.

Although Committee members in general now held a more favorable view of the economic situation and outlook than they had a month or two ago, attention was called to a number of problems. For one, the severity of the winter weather and its impact on the availability of fuels for industrial use posed a threat to output and employment in some parts of the country. Even though the unemployment rate was still unacceptably high, current and prospective rates of inflation also remained a source of major concern.

A measure of concern was also provoked by certain aspects of the Federal budget, after incorporation of assumptions about the new administration's fiscal proposals. It was noted that the high-employment deficit was projected to increase substantially in calendar 1977—to the highest level in relation to GNP since 1976—and that relatively large high-employment deficits tended to tighten financial markets and to exert upward pressures on interest rates. Should intermediate- and long-term interest rates rise significantly during 1977, it was observed, expansion in business fixed investment might well be less than would seem desirable. Concern also was expressed that the proposed second phase of the 2-year package of fiscal measures might overstimulate economic activity at a late stage in the expansion, as had happened at times in the past.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. In early November the Committee had specified the following ranges for growth over the period from the third quarter of 1976 to the third quarter of 1977: *M*-1, 4½ to 6½ per cent; *M*-2, 7½ to 10 per cent; and *M*-3, 9 to 11½ per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. The ranges being considered at this meeting were for the period from the fourth quarter of 1976 to the fourth quarter of 1977.

In commenting on the ranges for growth in the monetary aggregates over the period from the fourth quarter of 1976 to the fourth quarter of 1977, most members concurred in a suggestion that the existing range for *M*-1 be retained and that the lower limits of the ranges for *M*-2 and *M*-3 be reduced by ½ of a percentage point. Several of these members indicated that they would also be agreeable to retaining the existing ranges for all three monetary aggregates.

In connection with the proposal favored by most members, it was noted that *M*-2 had increased 10.9 per cent over the course of 1976, compared with an average yearly rise of 8.3 per cent in the preceding decade; and that *M*-3 had increased 12.4 per cent over 1976, compared with an average yearly rise of 8.8 per cent in the preceding 10 years. Growth of the broader measures of money over 1976 had been unusually rapid in relation to growth of *M*-1. In large part this reflected ongoing changes in financial markets that reduced reliance on demand deposits for transactions purposes; it also reflected the attractiveness of interest rates paid on time and savings deposits in relation to rates on market instruments.

It was also noted that growth rates of *M*-2 and *M*-3 from the third to the fourth quarter of 1976 had exceeded the ranges adopted by the Committee in early November. For the period ahead, therefore, the ranges favored by most members would imply a moderation of growth in these aggregates.

Several members of the Committee suggested that in the period ahead a significant slowing of growth in the time and savings deposits included in the broader aggregates was likely to develop. They noted that some banks and thrift institutions already had reduced the rates they were offering on such deposits and had taken other steps to slow inflows. Moreover, in 1976 growth in *M*-2 and *M*-3 had been sustained by shifts of funds from outstanding market securities to time and savings deposits, and the effect of such stock adjustments was likely to be less important in 1977. Thus, growth rates of the broader aggregates seemed likely to slow both in absolute terms and in relation to growth of *M*-1.

The downward adjustments of the lower limits of the projected ranges for *M*-2 and *M*-3 reflected this possibility. They also reflected the Committee's intention to continue to move gradually toward longer-run rates of monetary expansion consistent with general price stability. In this connection, it was noted that since April 1975, when 1-year growth ranges were first established for the monetary aggregates, the Committee had taken a number of small steps in pursuit of that objective. It was observed that the Committee ought to continue doing so in order to re-establish a foundation for economic stability over the longer term. At the same time, however, it was suggested that retaining the existing range for *M*-1 at this time would be consistent with efforts to accelerate the pace of economic expansion and to reduce unemployment from its unduly high rate.

One member suggested a variation of the proposal concurred in by most members: ½ of a percentage point reduction in the upper, rather than in the lower, limits of the ranges for *M*-2 and *M*-3 along with retention of the existing range for *M*-1. Another member, noting the influence of innovations in financial markets, expressed the view that for some time the Committee's longer-run ranges for *M*-2 and *M*-3 had not been consistent with its range for *M*-1; therefore he suggested reducing the range for *M*-1 to 4 to 6 per cent and making small upward adjustments in the ranges for *M*-2 and *M*-3, leaving the ranges for the broader aggregates still well below the rates of growth from the third to the fourth quarter of 1976. Against the suggestion for a reduction in the range for *M*-1, it was observed that the staff projections of nominal GNP in combination with growth of *M*-1 within the existing range implied a sizable rise in the income velocity of *M*-1 in 1977, even after allowance for further contributions to the rise in velocity from financial innovations.

At the conclusion of its discussion the Committee arrived at a consensus calling for retention of the existing range for *M*-1 and reductions of ½ of a percentage point in the lower limits of the ranges for *M*-2 and *M*-3. The ranges thus were 4½ to 6½ per cent for *M*-1, 7 to 10 per cent for *M*-2, and 8½ to 11½ per cent for *M*-3. The associated range for the rate of growth in the bank credit proxy was 7 to 10 per cent. It was agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for the year ahead.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1976 to the fourth quarter of 1977: *M*-1, 4½ to 6½ per cent; *M*-2, 7 to 10 per cent; and *M*-3, 8½ to 11½ per cent.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against this action: None.

As to policy for the period immediately ahead, members differed little in their preferences for ranges of growth in the monetary aggregates over the January–February period. For *M*-1, most members favored a range of 3 to 7 per cent; a number of members preferred 3½ to 7½ per cent, and one suggested 4 to 7 per cent. For *M*-2, most members favored a range of 7 to 11 per cent, while some preferred 7½ to 11½ per cent.

Differences of view were somewhat greater concerning the range for the Federal funds rate. A number of members preferred a relatively narrow range, one of ½ or ⅝ per cent, centered on the prevailing level of 4⅝ per cent or on 4¾ per cent—in large part because, in their view, financial markets at present were in a sensitive state. Other members preferred a wider range centered on a rate of 4¾ per cent—specifically, 4¼ to 5¼ per cent—because they believed that additional leeway for System operations should be provided in the event that over the January-February period growth in the aggregates appeared to be deviating significantly from the rates now expected.

One member suggested that the Committee give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting—as it had decided to do at its December meeting—because of the uncertainties associated with projections of growth in monetary aggregates around the year-end. However, most members preferred to have operating decisions in the period ahead based primarily on the behavior of the monetary aggregates.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in *M*-1 and *M*-2 over the January–February period at annual rates within ranges of 3 to 7 per cent and 7 to 11 per cent, respectively, would be appropriate. It was understood that in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of *M*-1 and *M*-2.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4¼ to 5 per cent. It was also agreed that early in the inter-meeting period the Manager should aim for a Federal funds rate in the area of 4⅝ to 4¾ per cent, with specific operating decisions to depend in part on the state of securities markets. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services slowed somewhat further in the fourth quarter, mainly because of a sharp decline in the rate of inventory accumulation. In December retail sales increased sharply, following strong gains in the preceding 2 months. Industrial production and total employment rose further, and the unemployment rate declined from 8.1 to 7.9 per cent. The wholesale price index for all commodities rose substantially, reflecting a sharp increase in average prices of farm products and foods; the rise in average prices of industrial commodities slowed, owing largely to declines in prices of fuels. The advance in the index of average wage rates over recent months has remained below the rapid rate of increase during 1975.
>
> The average value of the dollar against leading foreign currencies declined in December but has since recovered somewhat. The pound sterling strengthened following negotiation of an IMF standby arrangement and of a medium-term facility to offset reductions in official sterling balances. In November the U.S. foreign trade deficit

increased, bringing the October-November average deficit to about the third-quarter rate.

M-1, which was unchanged in November, expanded appreciably in December; from the third to the fourth quarter growth in *M*-1 was moderate. Inflows of the time and savings deposits included in *M*-2 and *M*-3 were almost as large in December as in November, and growth in these broader aggregates was substantial. Interest rates changed little in late December but recently have moved up.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Vote against this action: Mr. Balles.

Mr. Balles dissented from this action for the following reasons. In view of recent financial market innovations, he believed that the course of real GNP and prices now bore a closer relationship to the behavior of *M*-2 than to that of *M*-1. Therefore, he was concerned about the fact that growth in *M*-2 had been exceeding the Committee's longer-run range and about the consequent implications for future inflation. Accordingly, he thought that in the period ahead the System should aim initially for a Federal funds rate of about 4¾ per cent and should be prepared to aim over the course of the period for a rate as high as 5¼ per cent if the aggregates, especially *M*-2, appeared to be growing at rates significantly higher than the longer-run ranges.

2. Agreements in Connection with Credit Facility Relating to Official Sterling Balances

For some time prior to this meeting discussions had been under way among representatives of central banks of the Group of Ten countries and Switzerland in regard to a medium-term standby credit facility relating to official sterling balances for the Bank of England. Concurrently, officials of the U.S. Treasury Department and the Federal Reserve System had been considering arrangements for U.S. participation in such a facility. As announced on January 10, an agreement in principle for a $3 billion facility was reached at a meeting in Basle, Switzerland, by representatives of the Bank for International Settlements (BIS), the Bank of England, and a number of other central banks, including the Federal Reserve. The U.S. share was $1 billion, to be provided through the Federal Reserve System and the U.S. Treasury's Exchange Stabilization Fund (ESF). At this meeting the Committee ratified the agreement reached in Basle and arrangements made with the Treasury Department for Federal Reserve–Treasury participation.

The objective of the Basle agreement was to help the United Kingdom achieve an orderly reduction in the reserve currency role of sterling and thus to avoid the kind of disturbances to the international monetary system that had occurred at times in the past as a result of fluctuations in official sterling balances. In general, the agreement provided for the extension of a $3 billion facility to the Bank of England by the BIS, with backing, as necessary, by the other participants, for a period of 2 years—and for a third year if mutually agreed upon by the participants. For its part, the United Kingdom agreed to reduce official sterling balances to working levels over the "drawdown" period. In exchange for official holdings of sterling, it would offer negotiable bonds denominated in currencies other than sterling and having maturities of 5 to 10 years. The Bank of England would be entitled to draw on the credit facility to the extent necessary to finance reductions in official sterling balances other than those associated with sales of foreign currency bonds. Repayments would begin at the end of the "drawdown" period and would be completed within the succeeding 4 years.

It was understood that eligibility to draw on the standby credit facility would be conditional on continuing eligibility of the United Kingdom to draw on the $3.9 billion credit recently negotiated with the International Monetary Fund (IMF). The facility could also be suspended if the United Kingdom were not making reasonable efforts to achieve reductions in official sterling balances; the

Managing Director of the IMF was being asked to assist in making a determination on this score.

With respect to U.S. participation, the Federal Reserve and the Treasury had agreed that if the United States were required to provide financing to the BIS in support of the standby facility, the funds would be provided initially by the Federal Reserve through its existing swap arrangement with the BIS, taking the form of a usual 3-month swap, subject to three renewals. Should such financing be required continuously for more than one year, however, it would subsequently be provided by the Treasury, acting through the Exchange Stabilization Fund. Risk associated with such financing, whether provided by the Federal Reserve or the ESF, was to be borne equally by the two.

> Votes for ratification of these agreements: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against ratification: None.

3. Agreement to "Warehouse" Currencies for the Exchange Stabilization Fund

At this meeting the Committee agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies held by the ESF—that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies to the ESF—if that should prove necessary to enable the ESF to deal with potential liquidity strains. Specifically, the Committee agreed that the Federal Reserve would be prepared, if requested by the Treasury, to warehouse up to $1½ billion of eligible foreign currencies, of which half would be for periods of up to 12 months and half for periods of up to 6 months.

In the discussion it was noted that such warehousing operations had proved useful from time to time in the past, on occasions when the resources of the ESF had been inadequate to meet all the demands on them. It was also noted that, while the present agreement to warehouse currencies did not have a specific terminal date, it would be subject to review by the Committee at its organizational meeting each March in connection with the regular review of all outstanding authorizations. The members concurred in an observation that no modifications in the warehousing arrangement were likely to be proposed at the next organizational meeting, which was only 2 months away, but that the Committee could decide to reconsider the arrangement at a subsequent organizational meeting.

Votes to approve the warehousing arrangement: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes to disapprove: None.

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Records of policy actions taken by the Federal Open Market Committee at each meeting, in the form in which they will appear in the Board's *Annual Report*, are released about a month after the meeting and are subsequently published in the BULLETIN.

Law Department

Statutes, regulations, interpretations, and decisions

RULES REGARDING AVAILABILITY OF INFORMATION

The Board of Governors has amended its Rules Regarding Availability of Information as required by the Government in the Sunshine Act.

Effective March 12, 1977, section 261.6(a)(1) is amended to read as follows:

SECTION 261.6—
Exemptions from Disclosure

(a) * * *

(1) is specifically authorized under criteria established by an Executive order to be kept secret in the interests of national defense or foreign policy and is in fact properly classified pursuant to such Executive order, or is specifically exempted from disclosure by statute (other than section 552b of Title 5 United States Code) provided that such statute (A) requires that the matters be withheld from the public in such a manner as to leave no discretion on the issue, or (B) establishes particular criteria for withholding or refers to particular types of matters to be withheld;

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INTERPRETATION OF REGULATION Y

Statement of policy concerning divestitures by bank holding companies.—From time to time the Board of Governors receives requests from companies subject to the Bank Holding Company Act, or other laws administered by the Board, to extend time periods specified either by statute or by Board order for the divestiture of assets held or activities engaged in by such companies. Such divestiture requirements may arise in a number of ways. For example, divestiture may be ordered by the Board in connection with an acquisition found to have been made in violation of law. In other cases the divestiture may be pursuant to a statutory requirement imposed at the time an amendment to the Act was adopted, or it may be required as a result of a foreclosure upon collateral held by the company or a bank subsidiary in connection with a debt previously contracted in good faith. Certain divestiture periods may be extended in the discretion of the Board, but in other cases the Board may be without statutory authority, or may have only limited authority, to extend a specified divestiture period.

In the past, divestitures have taken many different forms, and the Board has followed a variety of procedures in enforcing divestiture requirements. Because divestitures may occur under widely disparate factual circumstances, and because such forced dispositions may have the potential for causing a serious adverse economic impact upon the divesting company, the Board believes it is important to maintain a large measure of flexibility in dealing with divestitures. For these reasons, there can be no fixed rule as to the type of divestiture that will be appropriate in all situations. For example, where divestiture has been ordered to terminate a control relationship created or maintained in violation of the Act, it may be necessary to impose conditions that will assure that the unlawful relationship has been fully terminated and that it will not arise in the future. In other circumstances, however, less stringent conditions may be appropriate.

1. *Avoidance of Delays in Divestitures.* Where a specific time period has been fixed for accomplishing divestiture, the affected company should endeavor and should be encouraged to complete the divestiture as early as possible during the specific period. There will generally be substantial advantages to divesting companies in taking steps to plan for and accomplish divestitures well before the end of the divestiture period. For example, delays may impair the ability of the company to realize full value for the divested assets, for as the end of the divestiture period approaches the "forced sale" aspect of the divestiture may lead potential buyers to withhold firm offers and to

bargain for lower prices. In addition, because some prospective purchasers may themselves require regulatory approval to acquire the divested property, delay by the divesting company may—by leaving insufficient time to obtain such approvals—have the effect of narrowing the range of prospective purchasers. Thus, delay in planning for divestiture may increase the likelihood that the company will seek an extension of the time for divestiture if difficulty is encountered in securing a purchaser, and in certain situations, of course, the Board may be without statutory authority to grant extensions.

2. *Submission and Approval of Divestiture Plans.* When a divestiture requirement is imposed, the company affected should generally be asked to submit a divestiture plan promptly for review and approval by the Reserve Bank or the Board. Such a requirement may be imposed pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act to issue such orders as may be necessary to enable the Board to administer and carry out the purposes of the Act and prevent evasions thereof. A divestiture plan should be as specific as possible, and should indicate the manner in which divestiture will be accomplished—for example, by a bulk sale of the assets to a third party, by "spinoff" or distribution of shares to the shareholders of the divesting company, or by termination of prohibited activities. In addition, the plan should specify the steps the company expects to take in effecting the divestiture and assuring its completeness, and should indicate the time schedule for taking such steps. In appropriate circumstances, the divestiture plan should make provision for assuring that "controlling influence" relationships, such as management or financial interlocks, will not continue to exist.

3. *Periodic Progress Reports.* A company subject to a divestiture requirement should generally be required to submit regular periodic reports detailing the steps it has taken to effect divestiture. Such a requirement may be imposed pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act, referred to above, as well as its authority under section 5(c) of the Act to require reports for the purpose of keeping the Board informed as to whether the Act and Board regulations and orders thereunder are being complied with. Reports should set forth in detail such matters as the identities of potential buyers who have been approached by the company, the dates of discussions with potential buyers and the identities of the individuals involved in such discussions, the terms of any offers received, and the reasons for rejecting any offers. In addition, the reports should indicate whether the company has employed brokers, investment bankers or others to assist in the divestiture, or its reasons for not doing so, and should describe other efforts by the company to seek out possible purchasers. The purpose of requiring such reports is to insure that substantial and good faith efforts are being made by the company to satisfy its divestiture obligations. The frequency of such reports may vary depending upon the nature of the divestiture and the period specified for divestiture. However, such reports should generally not be required less frequently than every three months, and may in appropriate cases be required on a monthly or even more frequent basis. Progress reports as well as divestiture plans should be afforded confidential treatment.

4. *Extensions of Divestiture Periods.* Certain divestiture periods—such as the December 31, 1980 deadline for divestitures required by the 1970 Amendments to the Bank Holding Company Act—are not extendable. In such cases it is imperative that divestiture be accomplished in a timely manner. In certain other cases, the Board may have discretion to extend a statutorily prescribed divestiture period within specified limits. For example, under section 4(c)(2) of the Act the Board may extend for three one-year periods the two-year period in which a bank subsidiary of a holding company is otherwise required to divest shares acquired in satisfaction of a debt previously contracted in good faith. In such cases, however, when the permissible extensions expire the Board no longer has discretion to grant further extensions. In still other cases, where a divestiture period is prescribed by the Board, in the exercise of its regulatory judgment, the Board may have broader discretion to grant extensions.

Where extensions of specified divestiture periods are permitted by law, extensions should not be granted except under compelling circumstances. Neither unfavorable market conditions, nor the possibility that the company may incur some loss, should alone be viewed as constituting such circumstances—particularly if the company has failed to take earlier steps to accomplish a divestiture under more favorable circumstances. Normally, a request for an extension will not be considered unless the company has established that it has made substantial and continued good faith efforts to accomplish the divestiture within the prescribed period. Futhermore, requests for extensions of divestiture periods must be made sufficiently in advance of the expiration of the prescribed period both to enable the Board to consider the request in an orderly manner and to enable the company to effect a timely divestiture in the event the request for extension is denied. Companies subject to divestiture requirements should be aware that a failure to accomplish a divestiture within the prescribed period may in and of itself be viewed as a separate violation of the Act.

5. *Use of Trustees.* In appropriate cases a company subject to a divestiture requirement may be required to place the assets subject to divestiture with an independent trustee under instructions to accomplish a sale by a specified date, by public auction if necessary. Such a trustee may be given the responsibility for exercising the voting rights with respect to shares being divested. The use of such a trustee may be particularly appropriate where the divestiture is intended to terminate a control relationship established or maintained in violation of law, or where the divesting company had demonstrated an inability or unwillingness to take timely steps to effect a divestiture.

6. *Presumptions of Control.* Bank holding companies contemplating a divestiture should be mindful of section 2(g)(3) of the Bank Holding Company Act, which creates a presumption of continued control over the transferred assets where the transferee is indebted to the transferor, or where certain interlocks exist, as well as section 225.2 of Regulation Y, which sets forth certain additional control presumptions. Where one of these presumptions has arisen with respect to divested assets, the divestiture will not be considered as complete until the presumption has been overcome. It should be understood that the inquiry into the termination of control relationships is not limited by the statutory and regulatory presumptions of control, and that the Board may conclude that a control relationship still exists even though the presumptions do not apply.

7. *Role of the Reserve Banks.* The Reserve Banks have a responsibility for supervising and enforcing divestitures. Specifically, in coordination with Board staff they should review divestiture plans to assure that proposed divestitures will result in the termination of control relationships and will not create unsafe or unsound conditions in any bank or bank holding company; they should monitor periodic progress reports to assure that timely steps are being taken to effect divestitures; and they should prompt companies to take such steps when it appears that progress is not being made. Where Reserve Banks have delegated authority to extend divestiture periods, that authority should be exercised consistently with this policy statement.

INTERPRETATIONS OF REGULATION Z

On December 29, 1976, the Board published for comment three sample lease disclosure statements as proposed official Board interpretations of Regulation Z (41 FR 56657). The statements were proposed for use in conjunction with three types of lease transactions: (1) open-end or finance vehicle leases (Interpretation § 226.1501), (2) closed-end or net vehicle leases (Interpretation § 226.1502), and (3) furniture leases (Interpretation § 226.1503).

Thirty written comments on the proposal were received. The comments have been given careful consideration and, on the basis of the comments and its own analysis, the Board has revised the interpretations and has issued them in final form.

The comments generally supported the design, format and use of simplified language in the forms. The instructions were generally considered adequate by the commenters; revisions to the instructions will be discussed below. The completed forms provided by the Board, which were not part of the interpretations, have not been reproduced in final form. They appeared to be a source of confusion, and the Board is concerned that the provision of contract terms merely as illustrations would be misconstrued as approval of those terms for use by lessors.

The forms have not been reduced to one page for this publication. They will be printed as soon as possible, republished in the *Federal Register* and made available in limited quantities to interested parties.

The Board wishes to emphasize, as it did in the December 29, 1976, publication, that these forms are not the exclusive method of compliance with the Consumer Leasing Act and the implementing Regulation. Lessors are permitted to design other formats by which compliance may be achieved. Lessors that do choose to use the forms issued by the Board, however, must not alter the wording or sequence of the disclosures, except to the extent that provisions have been made for deletion or substitution of terms.

Any inapplicable disclosure should be deleted. The titles of the forms and the numbering system may be changed or deleted, but care should be taken that consistency is maintained in the references to item numbers in the disclosures. The statement that the disclosures are provided pursuant to Federal law may be deleted or changed. Brackets have been provided around disclosures which are alternative in nature (e.g., the purchase option disclosures).

The following changes have been made to the interpretations:

1. A statement that the disclosures are provided pursuant to the Federal Consumer Leasing Act has been added to at the top of all three disclosure statements. A similar statement at the beginning of Item 14 in § 226.1501 has been deleted. A comment was received that the placement of that statement in Item 14 implied that the other disclosures are not required, when in fact they are.

2. In Item 2 of the vehicle lease statements (§§ 226.1501 and 1502) the words "Body Style" have been substituted for the words "Body Make" and the term "Vehicle ID #" has been substituted for "Serial #" in response to comments that these terms more accurately reflect business usage. In Item 2 of the furniture lease statement (§ 226.1503), the term "Price" has been deleted from the description; it is not a required term and appeared to be confusing as it is suspectible of a variety of definitions.

3. In response to a number of written comments, the Board has significantly changed the disclosures of the payment due at consummation and the periodic payment. In order to avoid double disclosure, the proposal provided for disclosure in the open-end vehicle lease statement only of those elements of these two disclosures which were to be used in calculating the "Total Lease Obligation." As a consequence, there were no disclosures of the total payment made by the lessee at consummation or the total monthly payment. Commenters felt that disclosure of these inclusive totals was more important than the avoidance of double disclosure.

The Board has therefore amended § 226.1501, Items 3 and 4, to provide these totals. Item 3(a) consists of those elements of a total payment due at inception which will be used to calculate "Total Lease Obligation." Item 3(b) consists of all other elements of that total initial payment. Item 4(a) consists of that portion of the total monthly payment which is attributable to rent, depreciation, profit and sales/use tax on that payment. It will be used in calculating the "Total Lease Obligation." Item 4(b) contains all other charges which may be incurred on a monthly basis by the lessee. Lessors should refer to the form's specific instructions for further guidance.

The closed-end vehicle lease and the furniture lease forms have been revised to provide similar totals without the separate elements, as there is no total lease obligation disclosure in those types of leases.

4. All instructions in the forms themselves have been deleted and placed in the accompanying instructions in response to comments that the forms could be more easily reproduced without them.

5. The forms have been revised to provide disclosures for leases with monthly payment schedules. The majority of consumer leases appear to have monthly schedules, and differing periodic terms can be easily substituted where a lease provides otherwise.

6. The sequence of disclosure has been changed to provide a more meaningful format.

7. The disclosures in Item 4 regarding the number, amounts and due dates of periodic payments have been revised to provide the number of scheduled payments and a simpler method of determing the "Total of Basic Monthly Payments" in § 226.1501.

8. The insurance disclosure in all statements (Item 9) has been revised to permit disclosure of optional as well as required insurance.

9. Item 10 in the open-end lease statement has been amended to permit the lessor to state what type of value (e.g., wholesale or retail) is being placed on the vehicle at the end of the term. A similar space is provided in Item 14(b).

It has also been amended to state that the lessee's liability for the estimated value of the vehicle "may be" (rather than "is") limited. Comments stated that the lessee's liability for this sum may in fact be unlimited.

10. Item 14 (End of Term Liability) of § 226.1501 has been revised to provide the following:

(a) A more precise statement of the lessee's liability at the end of the term by stating that the lessee may have liability beyond that for the difference between estimated and actual values as a result of disposition charges, unpaid traffic tickets and other charges incurred under the lease (Item 14(a)).

(b) A reference to the standards used to determine unreasonable or excessive wear or use, if the lessor sets such standards (Item 14(a)1).

(c) Space has also been added in which the lessor may set forth the type of appraisal to be obtained by the lessee (14(b)).

11. Item 13 in § 226.1502 (closed-end vehicle statement) has been amended to provide disclosure of the lessee's right to an appraisal at early termination where the charge for such early termination is based on the estimated value of the vehicle. A similar disclosure has not been provided in the furniture statement as it does not appear to be a common term in furniture leases.

12. The instructions have been revised to provide further guidance for use of the forms.

In consideration of the foregoing the Board issues the following interpretations of 12 CFR Part 226, effective March 23, 1977. The forms and instructions are avaliable upon request from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

BANK HOLDING COMPANY AND BANK MERGER ORDERS ISSUED BY THE BOARD OF GOVERNORS

ORDERS UNDER SECTION 3 OF BANK HOLDING COMPANY ACT

Bankstock One, Inc.,
Ozark, Arkansas

Order Denying Formation of Bank Holding Company

Bankstock One. Inc., Ozark, Arkansas, has applied for the Board's approval under § 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) of formation of a bank holding company through acquisition of 80 per cent or more of the voting shares of Bank of Ozark, Ozark, Arkansas ("Bank").

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant is a nonoperating corporation organized under the laws of Arkansas for the purpose of becoming a bank holding company through the acquisition of Bank. Upon acquisition of Bank, Applicant would hold less than 1 per cent of the total deposits in commercial banks in the State.[1] Bank (deposits of approximately $20.1 million) is the larger of two commercial banks in the relevant banking market[2] and holds 63.8 per cent of total deposits in commercial banks in the market. Inasmuch as this proposal represents essentially a reorganization of existing ownership interests, the acquisition of Bank by Applicant would not have any significant adverse effect upon either existing or potential competition within the relevant banking market.

The Board has indicated on previous occasions that it believes that a holding company should constitute a source of financial and managerial strength to its subsidiary bank(s) and that the Board will closely examine the condition of an applicant in each case with this consideration in mind. As part of the subject proposal, Applicant would assume a substantial portion of the debt incurred by Applicant's principal in acquiring his shares of Bank. Applicant proposes to service this debt over a 12-year period, through dividends to be declared by Bank and tax benefits to be derived from filing consolidated tax returns. In the Board's view, Applicant's financial projections over the debt-retirement period appear to be unduly optimistic and it does not appear that Applicant will possess the financial flexibility necessary to meet its annual debt service requirements while maintaining adequate capital at Bank. If Bank's growth continues at or near its historical rate,[3] total capital

[1]As of September 30, 1976.

[2]*The relevant banking market is approximated by Franklin* County, Arkansas. Market data is as of December 31, 1975.

[3]Applicant has projected that Bank's assets will grow at an annual rate of 8 per cent. However, Bank has experienced average annual asset growth of 20.7 per cent over the past five years. Even if, as Applicant has suggested, Bank's asset growth over the past five years has been the result of nonrecurring circumstances, Applicant's asset growth projections appear unealistic. In 1976, Bank assets grew at an annual rate of approximately 16 per cent. Over the past five years, the average annual growth rate of all Arkansas banks has been approximately 15 per cent.

funds of Bank as related to its total assets would become insufficient because Applicant's substantial debt servicing requirements would not permit Bank to increase its capital by earnings retention in amounts sufficient to keep pace with Bank's asset growth. The Board is of the view that it would not be in the public interest to approve the formation of a bank holding company with an initial debt structure that could result in the weakening of Bank's overall financial condition. Accordingly, the Board concludes that the considerations relating to Applicant's and Bank's financial resources and future prospects weigh against approval of the application. Moreover, in light of Bank's recent operating history, the Board concludes that financial and managerial resources of Applicant and Bank lend little weight toward approval of the instant application.

As stated previously, consummation of this proposal would merely result in a restructuring of Bank's present ownership. No significant changes in Bank's operations or in the services to be offered to Bank's customers are contemplated. Consequently, considerations relating to the convenience and needs of the community to be served are consistent with, but lend no weight toward, approval.

On the basis of all of the circumstances concerning this application, the Board concludes that the financial considerations involved in this proposal present adverse circumstances bearing upon the financial resources and future prospects of both Applicant and Bank. Such adverse factors are not outweighed by any procompetitive effects or by benefits that would result in serving the convenience and needs of the community. Accordingly, it is the Board's judgment that approval of the application would not be in the public interest and that the application should be denied.

On the basis of the record, the application is denied for the reasons summarized above.

By order of the Board of Governors, effective February 25, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

(Signed) GRIFFITH L. GARWOOD,
Deputy Secretary of the Board.

[SEAL]

The Berlin City Bank,
Berlin, New Hampshire

Order Denying Retention of Bank Shares

The Berlin City Bank, Berlin, New Hampshire ("Applicant"), has applied for the Board's approval under §3(a)(1) of the Bank Holding Company Act (12 U.S.C. §1842(a)(1)) to continue to be a bank holding company through the retention of 50.3 per cent of the voting shares of The White Mountain Trust Company, Gorham, New Hampshire ("Bank").

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with §3(b) of the Act (12 U.S.C. §1842(b)). The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in §3(c) of the Act (12 U.S.C. §1842(c)). Included among the comments received and considered by the Board were submissions by and on behalf of the Bank Commissioner of the State of New Hampshire; The North Country Bank, Berlin, New Hampshire; Gorham Savings Bank, Gorham, New Hampshire; Edward J. Reichert; and the management of The White Mountain Trust Company.

As a result of Applicant acquiring a majority of Bank's voting shares early in 1975 (Applicant's acquisition of a majority of Bank's voting shares in violation of the prior approval requirement in the Bank Holding Company Act is described in detail below), Applicant became a bank holding company controlling a total of $34.4 million in commercial bank deposits, which represents 2.3 per cent of the total deposits in commercial banks in New Hampshire, and is the eighth banking organization in that State.[1] Although retention of Bank (which accounts for 0.1 per cent of Statewide commercial bank deposits) would not have significant adverse effects upon the concentration of banking resources in New Hampshire, retention would have significant adverse competitive effects within the relevant banking market.

In analyzing the competitive effects of a retention proposal under §3(a) of the Act, the Board considers the competitive consequences of the acquisition at the time it was made. Based upon

[1]All banking data are as of December 31, 1975.

its analysis, the Board must conclude that approval of the instant proposal would amount to a countenancing by the Board of the significant adverse competitive consequences that resulted from the original acquisition of Bank by Applicant.

Bank ($1.4 million in deposits) is the smallest of the three commercial banks operating in the Berlin-Gorham banking market[2] and controls approximately 2.8 per cent of market deposits. Berlin City Bank is the largest and clearly the dominant commercial bank in the market controlling approximately 66.2 per cent of market deposits. Applicant's acquisition of a majority of Bank's voting shares had a number of significantly adverse competitive consequences: Applicant increased its market share to close to 70 per cent of commercial bank deposits and thereby increased the already high level of concentration of banking resources in the market; a significant amount of existing competition between Berlin City Bank and Bank was eliminated;[3] future competition was adversely affected by the removal of Bank as an independent competitive alternative in the Berlin-Gorham banking market (thereby reducing alternatives in the market from three to two), and the closed-town status of Gorham was preserved. Approval of this proposal would have the effect of sanctioning the above-described significant adverse competitive consequences. Accordingly, on the basis of the foregoing and other facts of record, the Board concludes that competitive considerations relating to this application weigh sufficiently against approval so that it should not be approved unless the anticompetitive effects are clearly outweighed by benefits to the public in meeting the convenience and needs of the communities to be served.

The financial resources and future prospects of Applicant and Bank are regarded as satisfactory and consistent with approval of the application. In addition to such considerations, among the factors enumerated in §3(c) of the Act that the Board must consider in acting on an application under the Act are the managerial resources of the applicant. As the Board has recently indicated,[1] the reference to "managerial resources" does not refer solely to the business abilities of management or to its past financial success. The legislative history of §3(c) makes it clear that this factor relates not only to management's competence but also to management's disposition to conduct the affairs of the bank holding company in accordance with the requirements of law. In assessing the managerial resources of an applicant, the Board must thus consider all the factors that bear upon the competence and quality of the management of any entity seeking approval to become a bank holding company. The Board has previously stated that when it comes to its attention that an acquisition has been made without the requisite prior approval of the Board, whether or not such violation of the law appears to have been "willful," such conduct may reflect so adversely upon the managerial factors in connection with an application for permission to retain the illegally acquired interests that the conduct, in and of itself, constitutes grounds for denial of such an application.

In the course of processing this application, it has come to the Board's attention that during January 1975, Applicant's management learned that a competitor bank, The North Country Bank, Berlin, New Hampshire, was actively making efforts to purchase stock of Bank in an attempt to obtain control. In an effort to forestall the acquisition of Bank, and "to protect its market position," Applicant's board of directors authorized its president to investigate the legality of purchasing shares of Bank. On February 13, 1975, Applicant sought the advice of a New Hampshire law firm and was informed that it would need the Federal Reserve Board's prior approval before it could acquire more than 25 per cent of the outstanding voting shares of Bank. On the same day, Applicant was advised by one of its directors, an attorney, that it was his opinion that Applicant could acquire as many shares of Bank as it desired without being in contravention of the Bank Holding Company Act. Thereafter, during the period of February 14, 1975, to March 10, 1975, Applicant acquired a

[2] The Berlin Gorham banking market, which is the relevant market within which to assess the competitive effects of this application, includes the five towns of Berlin, Gorham, Milan, Randolph, and Shelburne.

[3] The record shows that Berlin City Bank derives demand deposits from Gorham residents equal to 66 per cent of those held by Bank. In terms of loans, Berlin City Bank has over three times the dollar volume of loans outstanding to Gorham residents as Bank does.

[1] Board Order of July 29, 1976, denying the application of Florida National Banks of Florida to acquire Citizens Bank of Bunnell (1976 Federal Reserve BULLETIN 696); and Board Order of January 14, 1977, denying the application of Seilon, Inc., to retain shares in Nevada National Bancorporation, Reno, Nevada.

majority (151) of Bank's outstanding voting shares, without the Board's prior approval. By letter of April 4, 1975, the Federal Reserve Bank of Boston advised Applicant that it had in fact violated the Bank Holding Company Act.

Section 3(a) of the Act provides that it shall be unlawful, except with the prior approval of the Board, ". . . (1) for any action to be taken that causes any company to become a bank holding company." Section 2(a)(1) of the Act provides that "'bank holding company' means any company which has control over any bank or over any company that is or becomes a bank holding company by virtue of this Act." Section 2(a)(2)(A) of the Act further provides that any company has control over a bank or over any company if "(A) the company directly or indirectly . . . owns, controls, or has power to vote 25 per centum or more of any class of voting securities of the bank or company."

On the basis of the facts of record, the Board concludes that Berlin City controls Bank within the meaning of §2(a)(2)(A) of the Act. The Board further concludes that Berlin City violated §3(a)(1) of the Act by acquiring control of Bank and thereby causing itself to become a bank holding company without the prior approval of the Board.

In view of Berlin City's failure to resolve the contradictory legal advice it received which, in the Board's view, it was under a legal obligation to clarify, and its subsequent acquisition of control of Bank, insofar as this application is concerned, Applicant's management has not demonstrated a disposition to conform the conduct of Applicant's affairs with the requirements of the Bank Holding Company Act. Section 3(a) of the Act requires prior approval for such acquisitions, and where an acquisition is made without obtaining such prior approval under circumstances such as those presented here, the Board believes it should not approve an application to retain an illegally acquired interest and thereby allow the offending party to receive the benefit from its violative act.

There is no evidence in the record that the banking needs of the communities to be served are not currently being adequately served. Applicant has proposed to expand certain of Bank's services; however, in the context of this application, these considerations are not sufficient to outweigh the significant adverse competitive factors and managerial considerations associated with Applicant's above-described violation of the Act. Accordingly, it is the Board's judgment that approval of the application would not be in the public interest and that the application should be denied.[5]

On the basis of the record, and for the reasons summarized above, the application is hereby denied. Moreover, in view of such action Applicant is hereby ordered to take all appropriate and necessary steps to divest itself of the shares of Bank unlawfully acquired and to effect a complete and effective divestiture of its interest and control over Bank no later than 60 days from the effective date of this Order.

By order of the Board of Governors, effective February 10, 1977.

Voting for this action:Chairman Burns and Governors Gardner, Wallich, Coldwell, Partee, and Lilly. Absent and not voting: Governor Jackson.

(Signed) Griffith L. Garwood,
[SEAL] *Deputy Secretary of the Board.*

[5] In its consideration of the subject application, the Board has also considered the comments submitted by those opposing the application, and this Order reflects a consideration of those views. In addition, the management of Bank has requested that the Board hold a hearing on the application. Under § 3(b) of the Act, the Board is required to hold a hearing only when the primary supervisor of the bank to be acquired recommends disapproval of the application. In this case, the Commissioner of Banking of the State of New Hampshire has not recommended that the application be denied. Thus, there is no statutory requirement that a hearing be held and in view of its denial action, the Board believes that no useful purpose would be served by ordering a hearing in connection with this application.

Byron B. Webb, Inc.,
Palmyra, Missouri

Order Approving Retention and Acquistion of Bank Shares

Byron B. Webb, Inc., Palmyra, Missouri, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval under § 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire 33.2 per cent of the voting shares of Palmyra State Bank, Palmyra, Missouri ("Bank"), and to retain an additional 15.8 per cent of the outstanding voting shares of Bank.

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant is a one-bank holding company by virtue of its ownership since 1961 of more than 25 per cent of the outstanding voting shares of Bank. At the present time, Applicant owns approximately 47.4 per cent of the outstanding voting shares of Bank.[1] Bank, one of the smaller commercial banks in Missouri, is located in Palmyra, Missouri, and is the third largest of four banks in its relevant market area, which is approximated by Marion County. With total deposits of $15.1 million, Bank holds approximately 22.0 per cent of total market deposits.[2] Applicant proposes to acquire 33.2 per cent (9,962 of the outstanding voting shares) of Bank and also requests permission to retain 15.8 per cent (4,766 of the outstanding voting shares) of Bank that was acquired without the Board's prior approval.[3] Because Applicant's proposal involves the acquisition and retention of shares in a bank that Applicant already controls, it appears that consummation of the proposal would not eliminate existing or potential competition, nor would it increase the concentration of banking resources. Thus, competitive considerations are consistent with approval of the application.

The financial and managerial resources and future prospects of Applicant and Bank are regarded as satisfactory and consistent with approval of the application. Although there will be no immediate changes in the services offered by Bank as a result of consummation of the proposal, considerations relating to the convenience and needs of the community to be served are consistent with approval of the application. Therefore, it is the Board's judgment that the proposal is consistent with the public interest and that the application should be approved.

On the basis of the record, the application is approved for the reasons summarized above. The transaction involving the acquisition of additional shares shall not be made (a) before the thirtieth calendar day following the effective date of this Order or (b) later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of St. Louis pursuant to delegated authority.

By order of the Board of Governors, effective February 16, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

(Signed) GRIFFITH L. GARWOOD,
[SEAL] *Deputy Secretary of the Board.*

First Bancorp, Inc.,
Corsicana, Texas

Order Approving Continuation of Control Relationship with Bank

First Bancorp, Inc., Corsicana, Texas, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval under § 3(a)(2) of the Act (12 U.S.C. § 1842(a)(2)) and § 225.2(b)(2) of the Board's Regulation Y (12 C.F.R. 225.2(b)(2)) regarding a rebuttable presumption of control, to continue its control relationship with First National Bank, Fairfield, Texas ("Bank").

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)). No evidence has been submitted to indicate that Applicant does not control Bank.

Applicant, the 39th largest banking organization in Texas, controls seven banks with aggregate deposits of $124.8 million, representing .26 per cent of the total deposits in commercial banks in the State.[1] In addition, Applicant owns 4,800

[1]Applicant, a family owned company, is a "company covered in 1970," as defined in § 2(b) of the Act and engages in the following activities under the exemption in § 4(c)(ii) of the Act: (a) ownership and management of income producing real property, and (b) holding marketable securities and loans for Applicant's own account.

[2]All banking data are as of December 31, 1975.

[3]Between June 1 and August 5, 1976, Applicant acquired 15.8 per cent of outstanding voting shares (4,766 shares) of Bank without the Board's prior approval. In accord with the Board's position with respect to violations of the Act, the Board has scrutinized the underlying facts surrounding the acquisition of Bank's shares. Upon an examination of all the facts of record, including Applicant's undertaking to guard against violations in the future, the Board is of the view that the facts concerning the violation are not such as would call for denial of the application.

[1]All banking data are as of December 31, 1975.

shares or 24 per cent of the outstanding voting stock of Bank and one of Applicant's officers owns 2 per cent of Bank's voting shares, thereby giving rise to a rebuttable presumption that Applicant controls Bank under section 225.2(b)(2) of Regulation Y. When informed of the existence of the presumption, Applicant indicated that it did not wish to rebut this presumption, but instead has applied to retain the control relationship.

Bank is the third largest of five banks in the relevant banking market with deposits of $6.5 million representing 19.5 per cent of market deposits.[2] Applicant's nearest subsidiary bank is located 34 miles north of Bank in a separate banking market. Inasmuch as Applicant's present subsidiaries and Bank are located in separate banking markets and do not compete with one another, there would be no adverse effects on existing competition as a result of approval of this proposal. Moreover, it does not appear that potential competition would be adversely affected. Accordingly, competitive considerations are consistent with approval of the application.

The financial and managerial resources of Applicant and Bank are regarded as satisfactory and the future prospects for each appear favorable. Accordingly, banking factors are consistent with approval. Although there will be no change in the services offered by Bank, convenience and needs considerations are also consistent with approval of the application. Therefore, it is the Board's judgment that continuation of Applicant's control relationship with Bank is consistent with the public interest and that the application should be approved.[3]

On the basis of the record, the application is approved for the reasons summarized above.

By order of the Board of Governors, effective February 22, 1977.

[2] The relevant banking market is approximated by Freestone County, Texas.

[3] As a result of this order, continuation of the existing relationship between Applicant and Bank is approved, and Bank will be deemed to be a subsidiary of Applicant for the purposes of the Bank Holding Company Act and regulations issued pursuant thereto. However, approval of the instant application does not indicate that the Board would in the future permit Applicant to acquire any additional shares of Bank. Any such action would require a separate application under section 3 of the Act and would be considered by the Board in light of the factors set forth in the Act.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

(Signed) THEODORE E. ALLISON,
[SEAL] *Secretary of the Board.*

First National Boston Corporation,
Boston, Massachusetts

Order Approving Acquisition of Bank

First National Boston Corporation, Boston, Massachusetts, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval under § 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire all of the voting shares of the successor by merger to The First National Bank of Yarmouth, Yarmouth, Massachusetts ("Bank"). The bank with which Bank is to be consolidated has no significance except as a means to facilitate the acquistion of the voting shares of Bank. Accordingly, the proposed acquisition of shares of the successor organization is treated herein as the proposed acquisition of the shares of Bank.[1]

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the application together with all comments received, including those of the Comptroller of the Currency,[2] in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant, the largest commercial banking organization in Massachusetts, controls four banks with aggregate domestic deposits of approximately $3.493 billion,[3] representing 23.52 per cent of total domestic deposits in commercial banks in the State. Acquisition of Bank would increase Applicant's share of commercial bank deposits in the State only slightly and would not have a significant effect upon the concentration of banking resources in Massachusetts.

[1] Applicant previously filed an application to acquire shares of Bank, but withdrew that application in February 1975, prior to Board action on that application.

[2] The Comptroller of the Currency recommended that the Board approve the instant application.

[3] Deposit data are as of March 31, 1976, unless otherwise indicated.

Bank (deposits of $33.2 million)[4] operates six banking offices in the Barnstable County (Cape Cod) banking market, the relevant geographic market for purposes of analyzing the competitive effects of the proposed acquisition. Bank is the fourth largest of eight banks in the Barnstable County banking market with 13.5 per cent of the total deposits held by offices of commercial bank in that market,[5] and is the sixty-ninth largest commercial bank in the State with .20 per cent of the total commercial bank deposits in the State. Inasmuch as Applicant has no subsidiary banking offices in that market (the nearest office of Bank to any office of Applicant's subsidiary banks is approximately 73 miles), the Board is of the opinion that Applicant's acquisition of Bank would not result in the elimination of a significant amount of existing competition.

While the market is somewhat concentrated and Applicant possesses the financial and managerial resources to enter the Barnstable County market *de novo*, the amount of potential competition that would be eliminated in the context of the subject proposal would not be significant, in view of Bank's market share and rank in the Barnstable County market.

In the context of this proposal, the Board regards the financial and managerial resources of Applicant and its subsidiaries as generally satisfactory and their future prospects as favorable. On March 18, 1976, the Board denied an unrelated bank acquisition application filed by Applicant. The Board expressed the view that Applicant should direct is financial and managerial resources toward its existing structure.[6] That application contemplated a proposed cash purchase of shares, whereas the instant application contemplates an exchange of shares. Applicant's financial condition has improved somewhat this past year and that improvement is expected to continue. The financial and managerial resources and future prospects of Bank, absent consummation of the proposed acquisition, are not entirely satisfactory but are expected to show improvement as a result of Bank's affiliation with Applicant. Applicant has committed that, upon consummation of the acquisition, it would make a contribution of funds to increase Bank's equity capital position and would provide Bank with managerial assistance. Accordingly, the financial and managerial factors, as they relate to Bank, lend weight toward approval of the application.

Affiliation with Applicant would enable Bank to draw upon Applicant's resources and expertise and thereby offer expanded services to Bank's customers. Applicant states that, following consummation of the acquisition, Bank would make available to its customers new services, including free checking accounts, overdraft privileges, and 90-day notice accounts. Through affiliation with Applicant, Bank would also expand existing services, such as revolving auto loans, credit card services, and smaller denomination certificates of deposit. It is expected that enabling Bank's customers to obtain additional and expanded services through Bank would result in Bank becoming a more attractive banking alternative and a stronger competitor in the relevant banking market. Considerations relating to the convenience and needs of the community to be served lend some weight toward approval of the application and, considered together with the financial and managerial factors discussed above, outweigh any adverse competitive effects that might result from consummation of the proposal.

On the basis of the record, the application is approved for the reasons summarized above. The transaction shall not be made (a) before the thirtieth calendar day following the effective date of this Order, or (b) later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Boston, pursuant to delegated authority.

By order of the Board of Governors, effective February 9, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Partee, and Lilly. Absent and not voting: Governors Coldwell and Jackson.

(Signed) GRIFFITH L. GARWOOD,
Deputy Secretary of the Board.

[SEAL]

[4]As of September 30, 1976.
[5]As of December 31, 1975.
[6]Board's order of March 18, 1976, denying the application of First National Boston Corporation, Boston, Massachusetts, to acquire Blackstone Valley National Bank, Northbridge, Massachusetts, 62 F. Res. Bull 372 (1976).

Great Southwest Ban Corp., Inc.,
Dodge City, Kansas

Order Denying
Formation of Bank Holding Company

Great Southwest Ban Corp., Inc., Dodge City, Kansas, has applied for the Board's approval under § 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) of formation of a bank holding company by acquiring 80 per cent or more of the voting shares of Bank of the Southwest, Dodge City, Kansas ("Bank"). Applicant has also applied, pursuant to § 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and § 225.4(b)(2) of the Board's Regulation Y (12 CFR § 225.4(b)(2)), for permission to continue to engage on Bank's premises in the sale of credit life, accident, and health insurance. The activities that Applicant proposes to engage in have been determined by the Board to be closely related to banking (12 CFR § 225.4(a)(9) (ii)).

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with §§ 3 and 4 of the Act. (41 Fed. Reg. 52530 (1976)). The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)), and the considerations specified in § 4(c) (8) of the Act (12 U.S.C. § 1843(c) (8)).

Applicant, a Kansas corporation, was incorporated in early 1975 at which time its shareholders purchased the majority interest in Bank. In March 1975, Applicant purchased from Bank's former principal shareholder 100 per cent of the stock of two corporations, Wes Kan Insurance Limited, which was engaged in the sale of credit-related insurance on Bank's premises, and First Management, Inc., which owned and leased to Bank certain bank facilities.[1] Applicant caused both corporations to be liquidated, assumed their liabilities, and acquired their assets.

Bank ($10.9 million in deposits) ranks 228th in size among 616 banks in the State and holds 0.12 per cent of total deposits in Kansas.[2] Bank is the third largest of seven banks operating in the relevant banking market[3] and controls 10.25 per cent of total market deposits. Applicant currently controls no banks. One of Applicant's principals is also principal shareholder of a bank holding company that controls Hanston State Bank, Hanston, Kansas, which does not compete in the relevant market area served by Bank.[4] Inasmuch as the proposed transaction appears to be primarily a change to corporate ownership, it is unlikely that the proposal would have a significant effect on competition.

The Board has indicated on previous occasions that a holding company should constitute a source of financial and managerial strength to its subsidiary bank(s), and that the Board will closely examine the condition of the applicant in each case with this consideration in mind. While the Board considers the managerial resources of Applicant and Bank to be generally satisfactory, the Board notes that Applicant will incur a sizable amount of debt[5] in connection with the acquisition of shares of Bank. Applicant proposes to repay that debt over an eleven-year period through dividends on Bank stock, insurance commissions, and rental income from Bank. Although Bank, which commenced business on May 22, 1972, has never paid cash dividends, its asset growth has outpaced the growth of its capital account.[6] Payment by Bank of dividends sufficient to enable Applicant to service its debt would decrease the amount of Bank's capital that would otherwise be available to support its operations. Under the instant proposal, it does not appear that an adequate level of capital would be maintained throughout the debt retirement period.

Applicant's projections of Bank's asset growth and earnings over the debt retirement period, on their face, suggest that Bank's capital structure will not be adversely affected by the dividend payout requirement over the debt retirement period. Should Bank's assets grow faster than Ap-

[1] Under § 4(c)(1)(A) of the Act, Applicant's continued ownership of the bank facilities would be exempt from the prohibitions of § 4 were Applicant to become a bank holding company.

[2] All banking data are as of December 31, 1975.

[3] The relevant banking market is approximated by Ford County, Kansas.

[4] Hanston State Bank is located in Hodgeman County, Kansas, outside the Ford County market area.

[5] In addition to this debt, the proposal contemplates Applicant's issuance of a class of cumulative preferred stock that may be expected to constitute an additional indirect drain on Bank's capital.

[6] The need for Bank's capital accounts to support Bank's rapid deposit growth is heightened by Bank's high ratio of loans to deposits.

plicant projects or if Bank's earnings fail to meet the levels projected by Applicant, dividend payouts necessary to service Applicant's debt would decrease Bank's capital to amounts below acceptable levels. In such event, Applicant's ability to serve as a source of financial strength to Bank would be in serious doubt. Accordingly, the reliability of Applicant's projections of Bank's asset and earnings growth, which bear directly on Bank's future capital needs, is of considerable importance.

The financial projections submitted by Applicant are not substantiated by Bank's growth and earnings record. In view of Bank's brief operating history since 1972, it is difficult to project Bank's rate of growth and earnings on the basis of its past record. The Board notes, however, that Bank is located in an expanding suburban area, and its rapid growth to date and its small size relative to the two competing banks in Dodge City suggest that Bank's growth rate is likely to remain high for the next several years.[7] While Bank's earnings improved in the first half of 1976, it does not appear, in the absence of a proven past record of earnings, that Applicant's projections of Bank's earnings can be realized. This is particularly true for the later years of the debt retirement period, during which more than 75 per cent of the acquisition debt is to be retired. In conclusion, the proposal would not provide Applicant the necessary financial flexibility to service its debt while maintaining adequate capital in Bank, and therefore Applicant's and Bank's financial resources and future prospects weigh against approval of the application.

No significant changes in Bank's operations or in the services offered to customers of Bank are anticipated to follow from consummation of the proposed acquisition. Consequently, convenience and needs factors lend no weight toward approval.

On the basis of the circumstances concerning the application to become a bank holding company, the Board concludes that the banking considerations involved in this proposal present adverse factors bearing upon the financial resources and future prospects of both Applicant and Bank. Such adverse factors are not outweighed by any procompetitive effects, the managerial resources of Applicant or Bank, or benefits that better satisfy the convenience and needs of the community to be served. Accordingly, it is the Board's judgment that approval of the application to become a bank holding company would not be in the public interest and that the application should be denied.

On the basis of the facts of record, the application to become a bank holding company is denied for the reasons summarized above.[8]

By order of the Board of Governors, effective February 4, 1977.

Voting for this action: Vice Chairman Gardner and Governors Wallich, Jackson, Partee, and Lilly. Absent and not voting: Chairman Burns and Governor Coldwell.

(Signed) GRIFFITH L. GARWOOD,

[SEAL] *Deputy Secretary of the Board.*

[7]The deposit size of all banks in the County increased at an average annual rate of 15 per cent in the years 1970 through 1975. During this period the two other banks operating in Dodge City (deposits of \$41.9 million and \$34.0 million at year-end 1975), both of which are older, established banks, grew at annual average rates of 14 per cent and 10 per cent, respectively. Applicant projects that Bank, which has grown since it commenced operations in 1972 to its current size of more than \$10 million in deposits, will experience only a 10 per cent annual growth rate during the debt servicing period.

[8]In view of the Board's action with respect to the application to become a bank holding company, consideration of Applicant's application to retain insurance sales activities becomes moot.

The Jacobus Company and Inland Heritage Corporation, Wauwatosa, Wisconsin

Order Denying Formation of a Bank Holding Company and Acquisition of Two Bank Holding Companies

The Jacobus Company, Wauwatosa, Wisconsin, and its 45.4 per cent owned subsidiary, Inland Heritage Corporation, Wauwatosa, Wisconsin (hereinafter jointly referred to as "Applicant"), both of which are bank holding companies within the meaning of the Bank Holding Company Act, have applied for the Board's approval under § 3 of the Bank Holding Company Act (12 U.S.C. § 1842) to acquire all of the voting shares of Financial Network Corporation ("FNC"), a one-bank holding company that owns 95.4 per cent of the voting shares of The Beloit State Bank ("Beloit Bank"), and to acquire all the voting shares of Community Holding Corporation ("CHC"), a one-bank holding company that owns 75.3 per cent of the voting shares of Community

Bank of Beloit ("Community Bank"), all of which are located in Beloit, Wisconsin. The proposed acquisition of FNC and CHC would be effected through the formation of a new holding company to be named Inland Beloit Corporation, Milwaukee, Wisconsin, a newly formed corporation that is wholly owned by Inland Heritage Corporation and for which a § 3 (a) (1) application has been filed with the Board. The proposed acquisitions would involve the merger of FNC and CHC into Inland Beloit Corporation, giving Inland Beloit Corporation direct ownership of FNC and CHC. As the parent companies of Inland Beloit Corporation, The Jacobus Company and Inland Heritage Corporation would thereby gain indirect ownership of FNC and CHC. FNC and CHC serve no purpose other than to hold the stock of their respective banks in corporate form, and Inland Beloit Corporation serves no purpose other than to facilitate the acquisition of FNC and CHC. Accordingly, the proposed acquisition of FNC and CHC by Inland Beloit Corporation is treated herein as the proposed acquisition of Beloit Bank and Community Bank by Applicant.

Notice of the applications, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the applications and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant controls four banks with aggregate deposits of $146.8 million, representing 1.0 per cent of total commercial bank deposits in Wisconsin, and ranks as the twelfth largest banking organization in that State. Applicant's acquisition of the two banks (aggregate deposits of $85.6 million) would increase Applicant's share of total commercial bank deposits in Wisconsin by 0.57 per cent, and change its ranking from the twelfth to the eighth largest banking organization in the State. The Board is of the view that the proposed acquisition would have no appreciable effect upon the concentration of banking resources in Wisconsin.

Beloit Bank is the second largest of 14 banking organizations operating in the relevant market and controls 20 per cent of the market's deposits, while Community Bank is ranked 11th in the market and controls 1.9 per cent of the market's deposits.[1]

[1]See opposite column for footnote.

Although Beloit Bank and Community Bank both operate within the relevant market, they have been closely affiliated through common ownership since 1966 when principals of Beloit Bank chartered Community Bank. Since that time the two banks have had common directors, officers, and stockholders, and as a result they do not compete with each other. While approval of this proposal would foreclose the possibility of Beloit Bank and Community Bank becoming disaffiliated in the future, the Board does not regard the elimination of such an alternative as particularly adverse in light of the sizes of the banks involved and the number of competing banks in the market. Moreover, viewed in light of Applicant's relative size and the nature of competition in the relevant market, the Board is of the view that consummation of the proposed acquisition of both Beloit Bank and Community Bank by Applicant would not result in Applicant gaining an excessive share of the deposits in the market, nor would it otherwise appreciably affect the structure of banking competition within the market.

It does not appear that consummation of the proposal would have significantly adverse effects on existing or potential competition. Applicant is not presently represented in the relevant market, and its nearest existing banking subsidiary to Beloit Bank and Community Bank is Heritage Bank of Mt. Pleasant, Mt. Pleasant, Wisconsin, which is located approximately 60 miles east of Beloit in a separate banking market. Accordingly, no significant existing competition would be eliminated. With respect to potential competition, it appears that the distances separating Applicant's present subsidiary banks and the two banks to be acquired, Wisconsin's restrictive branching laws, and the relative unattractiveness of the area for *de novo* entry, make it unlikely that significant competition would develop in the future between Applicant and the two banks. Accordingly, on the basis of the above and other facts of record, the Board concludes that consummation of the proposed transaction would not have a significantly adverse effect on existing or potential competition.

Under the Bank Holding Company Act, the Board is required to take into consideration the financial and managerial resources and future

[1]The Janesville Beloit banking market is approximated by Rock County. Unless otherwise indicated, all banking data are as of December 31, 1975.

prospects of the Applicant and of the bank(s) to be acquired. The subject proposal would involve an acquisition debt of $4.8 million, which would immediately be reduced to $3.6 million from available funds. This would represent a substantial addition to Applicant's already significant level of long-term debt.[2] In the Board's view, the projected earnings of Applicant would not provide Applicant with the necessary funds to meet this proposed increase in its annual debt servicing requirements while at the same time maintaining and strengthening the capital of its existing subsidiary banks.[3] Moreover, the past and projected growth in the deposits of Applicant's subsidiaries indicates that there will be a need for additional capital in those banks during the debt retirement period, existing subsidiaries are in need of capital, and approval of this proposal would detract Applicant's financial and managerial resources from meeting such needs. Under these circumstances, the Board believes that Applicant should direct its financial resources toward strengthening its exisiting subsidiaries before seeking further expansion of its banking interests. Accordingly, the Board concludes that considerations relating to the financial and managerial resources and future prospects weigh against approval of the applications.

In the Board's view the above adverse financial factors involved with Applicant's proposal are not outweighed by any convenience and needs considerations. It appears that the banking needs of the relevant market are being well served at the present time, and that Beloit Bank and Community Bank are generally competitive with the other banks operating in the market. While affiliation with Applicant might enhance the two banks' overall ability in meeting the needs of the relevant market, any public benefits that might result from approval are not sufficient to outweigh the adverse effects specified herein. Accordingly, it is the Board's judgment that approval of the applications would not be in the public interest and that the applications should be denied.

On the basis of the record, the applications are denied for the reasons summarized above.

By order of the Board of Governors effective February 7, 1977.

Voting for this action: Vice Chairman Gardner and Governors Wallich, Coldwell, Jackson, and Partee. Voting against this action: Governor Lilly. Absent and not voting: Chairman Burns.

(Signed) GRIFFITH L. GARWOOD,
[SEAL] *Deputy Secretary of the Board.*

Dissenting Statement of Governor Lilly

I disagree with the Board's decision and would approve the applications to acquire The Beloit State Bank and Community Bank of Beloit.

The majority correctly concludes that consummation of the proposal would have no significant adverse competitive effects. I disagree, however, with the conclusion that the proposal presents adverse financial factors that warrant denial of the applications. Although the proposal would result in an increase in Applicant's long-term debt obligation, in my opinion the record demonstrates that Applicant is a sound organization possessing the overall financial resources and managerial capability needed to service this additional debt. Furthermore, since affiliation with Applicant would provide access to Applicant's greater financial and managerial resources, Beloit Bank and Community Bank would be strengthened and the residents of the area served by the institutions would benefit from the improved and expanded services that could be offered.

For these reasons, I would approve the applications.

The Royal Trust Company,
Montreal, Quebec, Canada

Order Approving Acquisition of Bank

The Royal Trust Company, Montreal, Quebec, Canada ("Applicant"), and its wholly-owned subsidiary, Royal Trust Bank Corp., Miami, Florida ("Corp."), both of which are holding

[2] As of September 30, 1976, Applicant's consolidated long-term debt to equity ratio was 46 per cent, and the addition of $3.6 million in acquisition debt would increase Applicant's long term debt to equity ratio to 69 per cent. These ratios do not include The Jacobus Company, since The Jacobus Company is required to dispose of its interest in Inland Heritage Corporation as a result of the 1970 Amendment to the Bank Holding Company Act and commitments made to the Board in connection with previous applications under the Act. Accordingly, while The Jacobus Company is currently a source of strength to Applicant's subsidiary banks, that will not continue, and thus it is appropriate to exclude The Jacobus Company from the above ratios.

[3] In order to strengthen its financial position, Applicant has committed to sell $2.0 million in convertible debentures within one year following consummation of the subject acquisition. Even assuming that Applicant would be able to sell the convertible debentures and that the debentures would thereafter be converted to equity, Applicant would remain highly leveraged.

companies within the meaning of the Bank Holding Company Act ("Act"), have applied for the Board's approval under § 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire 51 per cent or more of the voting shares of First Bank of Pembroke Pines, Pembroke Pines, Florida ("Bank").[1] Inasmuch as Corp. is a wholly-owned subsidiary of Applicant, the proposed acquisition of Bank by Applicant and Corp. is treated herein as a proposed acquisition by Applicant.

Notice of the applications, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the applications and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant, with total assets of approximately $3.7 billion,[2] is the largest trust company and the eighth largest financial institution in Canada, and operates, through its subsidiaries and other interests, in both Europe and the Caribbean Islands. Corp., with total assets of approximately $7.5 million, controls four banks and one nonbank subsidiary,[3] a computer service bureau for the storing and processing of banking, financial, and other related economic data for financial institutions located in Florida. With four subsidiary banks, Applicant and Corp. comprise the 30th largest commercial banking organization in Florida, controlling aggregate deposits of $135.5 million,[4] representing approximately 0.5 per cent of the total deposits held by commercial banks in the State. Acquisition of Bank would increase Applicant's share of commercial bank deposits in Florida only slightly and would not have a significant effect upon the concentration of banking resources in the State.

Bank (with deposits of $13.3 million) is the 41st largest of 46 banking organizations (operating 115 banks) in the greater Miami banking market,[5] and controls approximately 0.2 per cent of the total deposits in commercial banks in that market. Applicant is currently the 19th largest banking organization in the market by virtue of its ownership of Royal Trust Bank of Miami (deposits of $80.3 million, representing 1.3 per cent of the total commercial bank deposits in the market), which is located 21 miles south of Bank in downtown Miami. Although Applicant and Bank are located in the same market, it does not appear that consummation of this proposal would have significant adverse effects on competition. Even after consummation of this proposal, Applicant would control only 1.5 per cent of the market deposits and a large number of alternative banking organizations would remain competing in the market. In addition, Applicant has committed itself to eliminating all director interlocks that currently exist between Bank and First National Bank of Hialeah, a competing bank located 12 miles away, and such action may have a positive effect on

[1] Applicant became a one-bank holding company with respect to The Royal Trust Bank of Miami, N.A., Miami, Florida ("Miami Bank"), due to the passage of the 1970 Amendments to the Act. Thereafter, Applicant acquired two additional Florida banks: The Royal Trust Bank of St. Petersburg ("St. Petersburg Bank"), Gulfport, and The Royal Trust Bank of Tampa ("Tampa Bank"), Tampa. Applicant and Corp. both subsequently acquired one additional Florida bank: Worth Avenue National Bank, Palm Beach, Florida. In response to applications filed by Applicant and Corp. pursuant to § 3 of the Act, the Federal Reserve Bank of Atlanta, acting under delegated authority, granted approval for Applicant to transfer its shares of Miami Bank and St. Petersburg Bank to Corp. so that all of Applicant's banks are now directly held by Corp. Applicant and Corp. are currently requesting Board approval to acquire one other Florida bank.

[2] Total asset figures for Applicant and Corp. are as of June 30, 1976. All other banking data are as of December 31, 1975, unless otherwise indicated.

[3] Information Systems Design of Florida, Inc., Miami, Florida ("ISD Florida"), was formed as a subsidiary of Information Systems Design, Inc., Santa Clara, California ("ISD-California"), in order to perform data processing activities permissible for bank holding companies. ISD California, and in turn, ISD-Florida are owned by Computel Systems, Ltd. ("Computel"), a Canadian data processing company. On December 6, 1973, the Board approved Applicant's request, filed pursuant to § 4(c)(9) of the Act, to acquire Computel but denied Applicant's request to retain ISD California thereafter. [38 *Fed. Reg.* 34514 (1973); 60 *Fed. Res. Bull.* 58 (1974)]. On June 20, 1975, the Federal Reserve Bank of Atlanta, acting under delegated authority, approved an application filed (Continued in opposite column)

pursuant to § 4(c)(8) of the Act, for Applicant to acquire ISD-Florida as a subsidiary of ISD-California without altering the Board's requirement that Applicant divest itself of ISD-California. ISD-Florida performs data processing activities permissible for bank holding companies (12 CFR § 225.4(a)(8)). On January 31, 1977, the Board approved a plan of divestiture of ISD-California that has been submitted by Applicant. Immediately prior to consummation of the divestiture proposal, Applicant will retain ISD-Florida through a corporate reorganization by which ISD-Florida will be transferred to Applicant or to another subsidiary of Applicant.

[4] As of December 31, 1975.

[5] The greater Miami banking market, the relevant market, includes Dade County and that portion of Broward County lying south of the Dania Canal. The northern boundary of the market area is delineated by the Dania Canal, the Miami International airport, and a tract of undeveloped land extending across Broward County.

competition. Accordingly, on the basis of the facts of record, the Board concludes that consummation of the proposal would not have significant adverse effects on existing or potential competition.

The financial and managerial resources and future prospects of Applicant and Corp., their subsidiary banks,[6] and Bank are regarded as satisfactory and consistent with approval of the applications. Affiliation with Applicant would enable Bank to draw upon Applicant's financial resources and thereby improve Bank's ability to make large loans to its customers. Furthermore, affiliation would also enable Bank to utilize Applicant's managerial resources and expertise and it is expected that this affiliation would result in Bank being better able to serve the needs of the area. Therefore, considerations relating to the convenience and needs of the community to be served lend some weight toward approval of the applications. Based upon the foregoing and other considerations reflected in the record, it is the Board's judgment that the proposed acquisition would be in the public interest and that the application should be approved.

On the basis of the record, the applications are approved for the reasons summarized above. The transaction shall not be made (a) before the thirtieth calendar day following the effective date of this Order or (b) later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of Atlanta pursuant to delegated authority.

By order of the Board of Governors, effective February 7, 1977.

Voting for this action: Chairman Burns and Governors Coldwell, Jackson, Partee and Lilly. Absent and not voting: Governors Gardner and Wallich.

(Signed) GRIFFITH L. GARWOOD,
[SEAL] *Deputy Secretary of the Board.*

[6]On October 29, 1976, the Board approved applications of Applicant and Corp. to acquire Worth Avenue National Bank, Palm Beach, Florida (62 *Fed. Res. Bull.* 962). In connection with that proposal, Applicant committed itself to inject $600,000 in equity capital into that bank within 90 days after its acquisition.

ORDERS UNDER SECTION 4 OF BANK HOLDING COMPANY ACT

Commercial National Corporation, Peoria, Illinois

Order Approving Acquistion of Commercial National Management Consulting Company

Commercial National Corporation, Peoria, Illinois, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval, under section 4(c)(8) of the Act [12 U.S.C. § 1843(c)(8)] and section 225.4(b)(2) of the Board's Regulation Y [12 CFR § 225.4(b)(2) (1976)], to acquire Commercial National Management Consulting Company, Peoria, Illinois ("Company"), a proposed new company that would engage in the activity of providing management consulting advice on an explicit fee and noncontinuing basis to nonaffiliated banks. Such activity has been determined by the Board to be closely related to banking [12 CFR § 225.4(a)(12) (1976)].

Notice of the application, affording opportunity for interested persons to submit comments and views on the public interest factors, has been duly published [41 *Federal Register* 55940 (1976)]. The time for filing comments and views has expired, and the Board has considered the application and all comments received in the light of the public interest factors set forth in section 4(c)(8) of the Act [12 U.S.C. § 1843(c)(8)].

Applicant controls one banking subsidiary, Commercial National Bank of Peoria, Peoria, Illinois ("Bank") which is the 17th largest bank in Illinois and holds deposits of $238 million, representing approximately four-tenths of 1 per cent of the total deposits in commercial banks in that State.[1] In addition, Applicant engages through its sole nonbanking subsidiary in underwriting, as reinsurer, credit life, accident and health insurance in connection with extensions of credit by Bank.

Company proposes to provide management consulting advice on an explicit fee and noncontinuing basis to nonaffiliated banks. This advice will be offered with respect to activities including, but not limited to, the following: auditing, marketing, mergers and acquisitions, site planning,

[1]All banking data are as of June 30, 1975, unless otherwise indicated.

financial planning, computer applications, capital adequacy, security measures and procedures, and personnel evaluation and compensation. In addition, Company will make recommendations and suggestions, including alternative policies or courses of action, where appropriate, concerning the policies and actions of its client banks.

It appears that no adverse effects upon competition would result from Company providing management consulting advice as proposed. Bank offers similar advice and services through its correspondent banking division;[2] such advice and services are limited in scope and are not offered on an explicit fee basis. No actual or potential competition would be eliminated upon approval of this application. Moreover, Applicant's *de novo* entry into this industry should have a procompetitive effect by increasing the number of firms offering this specialized financial and consulting advice. Furthermore, Applicant's making this advice available on an explicit fee basis, rather than as a correspondent banking service, will enable client banks to more accurately analyze the cost of such service and to more efficiently allocate their funds.

There is no evidence in the record indicating that consummation of the proposed transaction would result in any undue concentration of resources, unfair competition, conflicts of interests, unsound banking practices, or other adverse effects upon the public interest.

Based upon the foregoing and other considerations reflected in the record, the Board has determined, in accordance with the provisions of section 4(c)(8), that consummation of this proposal can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. Accordingly, the application is hereby approved. This determination is subject to the conditions set forth in section 225.4(c) of Regulation Y and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The transaction shall be made not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago, pursuant to authority hereby delegated.

By order of the Board of Governors, effective February 24, 1977.

Voting for this action: Chairman Burns and Governors Wallich, Coldwell, Jackson, Partee, and Lilly. Absent and not voting: Governor Gardner.

(Signed) GRIFFITH L. GARWOOD,
[SEAL] *Deputy Secretary of the Board.*

[2]Company will be operated independently of Bank's correspondent division.

D. H. Baldwin Company, Cincinnati, Ohio

Order Denying Retention of Empire Savings, Building and Loan Association

D. H. Baldwin Company, Cincinnati, Ohio, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval, under section 4(c)(8) of the Act [12 U.S.C. § 1843(c)(8)] and section 225.4(b)(2) of the Board's Regulation Y [12 CFR § 225.4(b)(2) (1976)], to retain all of the voting shares of Empire Savings, Building and Loan Association, Denver, Colorado ("Empire"), and its wholly-owned service corporation subsidiary, ESL Corporation, Denver, Colorado ("ESL"). In decisions involving two applications previously considered by the Board under section 4(c)(8) of the Act, the activity of operating a savings and loan association has been determined by the Board to be closely related to banking.

Notice of the application, affording opportunity for interested persons to submit comments and views has been duly published [41 *Federal Register* 26276 (1976)]. The time for filing comments and views has expired and the Board has considered the application and all comments received, including those of the Federal Home Loan Bank Board ("FHLBB") and the United States Department of Justice, in the light of the public interest factors set forth in section 4(c)(8) of the Act [12 U.S.C. § 1843(c)(8)]. In considering this application, the Board also took into account the record of a rulemaking proceeding initiated in 1973 concerning the general question whether the operation of a savings and loan association is so closely related to banking or managing or controlling banks as to be a proper incident thereto, as well as records in two adjudicatory proceedings concerning applications from bank holding companies to engage in the savings and loan business.[1]

Applicant, the fourth largest commercial banking organization in Colorado, controls 12 banks with aggregate deposits of $582.1 million,[2] representing approximately 7.7 per cent of the total deposits in commercial banks in that State. Applicant also controls several nonbanking subsidiaries engaged in underwriting life and casualty insurance, performing commercial mortgage and leasing activities, and manufacturing and marketing musical instruments.[3] Applicant also engages, through Empire, in savings and loan activities. Applicant acquired all of Empire's outstanding shares pursuant to an approval Order issued by the FHLBB on January 17, 1969.[4] Pursuant to section 4(a)(2), a company that became a bank holding company as a result of the 1970 Amendments to the Act, such as Applicant, is entitled to 10-year grandfather rights for an activity that it acquired after June 30, 1968, but on or before December 31, 1970. Therefore, Applicant is required to divest itself of Empire by December 31, 1980. The subject application has been filed pursuant to section 4(c)(8) to enable Applicant to retain Empire beyond December 31, 1980.

Empire is a state-chartered stock savings and loan association that conducts its business from a head office in Denver, Colorado, and 17 branch locations throughout that State. Pursuant to Colorado law and FHLBB regulations, Empire is empowered to make real estate loans, and certain instalment and commercial loans; to accept savings accounts; and to issue certificates of deposits. Empire is also able to order payments to be made to third persons even though it cannot accept demand deposits. As a further extension of its activities, Empire operates a small insurance agency and owns 100 per cent of the capital stock of a service corporation subsidiary ("ESL")[5] that is involved in two joint ventures that engage in land development and in the construction and sale of residential units. ESL is also the general partner in a limited partnership that owns and operates an apartment complex.

As noted above, the Board has previously had an opportunity to consider both the nature and the structure of the savings and loan industry in connection with a rulemaking proceeding and in the context of two applications by bank holding companies to engage in the activity of operating a savings and loan association. The Board concluded in those proceedings that the savings and loan business is "closely related" to banking, within the meaning of section 4(c)(8) of the Act.[6] While the Board has determined this activity to be "closely related" to banking, it has not formally amended Regulation Y to add the savings and loan business to the list of activities permissible for bank holding companies because it has not yet made the judgment that this activity is in general a "proper incident" to banking. Whether the activity of operating a savings and loan association is a "proper incident" to banking, within the meaning of section 4(c)(8), requires a determination by the Board that the performance of the activity by a bank holding company can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. In applying this balancing test, the Board may consider not only the benefits and detriments specifically enumerated in the statute that may be involved in a particular case, but also the broader questions of economic

[1] See the Board's Order of November 4, 1974, denying the application of American Fletcher Corporation, Indianapolis, Indiana, to acquire shares of Southwest Savings and Loan Association, Phoenix, Arizona. 39 *Federal Register* 39912 (1974); 60 *Federal Reserve* BULLETIN 868 (1974). In addition, refer to the Board's Order of April 10, 1975, denying the application of Memphis Trust Company, Memphis, Tennessee, to acquire Homeowners Savings and Loan Association, Inc., Collierville, Tennessee, a newly formed savings and loan association. 40 *Federal Register* 17199 (1975); 61 *Federal Reserve* BULLETIN 327 (1975).

[2] All banking data are as of December 31, 1975, unless otherwise indicated.

[3] Baldwin became a bank holding company with respect to its indirect ownership of more than 25 per cent of the voting shares of Central Bank and Trust Company, Denver, Colorado (name changed in May 1975, to Central Bank of Denver), as a result of the 1970 Amendments to the Bank Holding Company Act of 1956. Baldwin has been engaged in the manufacturing and selling of musical instruments for over 100 years and continues to engage in these activities pursuant to permanent grandfather rights under section 4(a)(2) of the Act. Baldwin's insurance underwriting activities must be divested by December 31, 1980.

[4] Subsequently, Baldwin acquired and merged Jefferson Savings and Loan Association, Arvada, Colorado, into Empire pursuant to another approval Order issued by the FHLBB on September 17, 1970 (amended November 17, 1970)

[5] ESL conducts its business from Empire's main office in Denver and although ESL is permitted to make certain types of loans that Empire cannot make, both State and Federal supervisory authorities regulate and periodically examine ESL.

[6] In neither of the two previous instances did the savings and loan association have a service corporation subsidiary engaged in other nonbanking activities.

and regulatory policy that may be raised by a proposal. In the present case, the Board is unable to make a determination favorable to Applicant on the "proper incident" test, either with regard to the particular facts presented in this case or on the broader issue as to the propriety of affiliations, through the means of a bank holding company, between banks and savings and loan associations generally.

The Board has previously indicated that it regards the standards under section 4(c)(8) of the Act for retention of a 10-year grandfathered activity to be the same as the standards for a proposed acquisition. Accordingly, in this case, the competitive effects of Applicant's retention of Empire must be examined and evaluated both as of the time of the original acquisition in 1969 and as of the present time. In view of the fact that banks and savings and loan associations are competitors in several product or service lines, the competitive analysis of the retention by a bank holding company of a savings and loan association is essentially similar to that regularly applied by the Board in passing upon applications from bank holding companies to acquire additional banks or nonbanking companies that are competitive with banks.

Applicant is the fourth largest banking organization in the Denver market[7] through its control of three banks (including Central Bank of Denver) with aggregate deposits of $376.6 million, representing approximately 8.9 per cent of the total deposits in the market's commercial banks. In addition, Applicant (excluding Empire) controls $188.9 million of the time and savings deposits in the market, representing approximately 4.5 per cent of the total time and savings deposits therein.

Empire, the fifth largest savings and loan association in Colorado, controls total savings deposits of $329.7 million, representing approximately 4.5 per cent of the total savings deposits in the State. Empire's home office, as well as 11 of its branch offices, are located within the Denver market and all but three of those offices are situated within seven miles of one of Applicant's three banks in that market. Within the Denver market, Empire is the fifth largest of 17 savings and loan associations and controls total savings deposits of $236.6 million, representing approximately 5.7 per cent of the market's total savings deposits.

In analyzing competition between a commercial bank and a savings and loan association, the Board believes it appropriate to focus on two relevant product markets: (i) commercial bank and savings and loan association time and savings deposits; and (ii) originations of one-to-four family residential mortgage loans.

Applicant's acquisition of Empire in 1969 increased Applicant's share of total time and savings deposits in the Denver market held by commercial banks and savings and loan associations from approximately 4.3 per cent to 9.2 per cent ($84 million to $180 million) and increased Applicant's rank from eighth to second among all commercial banking organizations and savings and loan associations. As of December 31, 1975, Applicant (including Empire) controlled approximately 10.3 per cent ($425.6 million) of the total time and savings deposits in both commercial banks and savings and loan associations in the Denver market, and it continued as the second largest of such organizations. It appears that the acquisition in 1969 by Applicant (then the fourth largest banking organization in the market) of Empire (then the fifth largest savings and loan association in the market) did eliminate existing competition for time and savings deposits in the market between those two organizations. In view of their relative sizes and market positions, it is clear that in 1969 Applicant and Empire were significant competitors in the Denver market for deposits and, therefore, the Board concludes, based upon all the facts of record, that the acquisition in 1969 of Empire by Applicant had an adverse effect upon existing competition for deposits in the relevant market.

With respect to mortgage lending activities, Applicant's acquisition of Empire in 1969 increased Applicant's share of one-to-four family residential mortgage loan originations in the Denver SMSA at the time from approximately 2 per cent to 3.8 per cent ($21.1 million). Even though Applicant's market share of one-to-four family residential mortgage loan originations in the Denver SMSA decreased to approximately 2.7 per cent ($40.2 million) in 1974, it appears that Applicant's acquisition in 1969 of Empire did eliminate existing competition for mortgage loan originations (particularly one-to-four family) in the Denver mortgage market. Accordingly, based upon the facts of record, the Board concludes that the original acquisition by Applicant had an ad-

[7]The Denver market includes all of Denver, Adams, Arapahoe, and Jefferson Counties and the Broomfield portion of Boulder County.

verse effect upon existing competition for residential mortgage loans in the relevant market.

The Board further concludes that there would be public benefits derived from disaffiliation of Baldwin and Empire. These benefits would be reflected in the reintroduction of Empire as an independent competitor in the two product lines discussed above, thus enhancing future competition in the relevant market.[8]

In commenting to the Board on the subject application the Department of Justice recommends denial of the application based upon both the adverse competitive effects that resulted from Empire's acquisition of Jefferson Savings & Loan in 1970 and the persistence, and possible worsening, of such adverse competitive effects since that acquisition. On the basis of all the facts of record, including the comments submitted by the Department of Justice, the Board concludes that the adverse competitive considerations relating to this application weigh against approval.

In support of its proposal, Applicant has stated that its affiliation with Empire has produced public benefits that generally would not have occurred without such affiliation: (1) the expansion of mortgage lending since 1969; (2) the expansion of Empire's facilties and services that have improved convenience to the public; and (3) the improved financial condition of Empire. At issue in this application is whether these claimed benefits to the public since the acquisition in 1969 of Empire outweigh the adverse effects upon competition resulting from such acquisition.

Turning to Applicant's first contention, the Board notes that from 1961 to 1968, prior to Empire's affiliation with Applicant, Empire's total mortgage loan portfolio increased approximately 81.3 per cent ($73.2 million) and from 1969 to 1975, after affiliation, the portfolio increased approximately 188.3 per cent ($132.7 million to $382.6 million). Furthermore, Empire's total mortgage originations increased approximately 233 per cent ($34 million to $113.2 million) from year-end 1969 to December 31, 1975. While the Board recognizes that Applicant has expanded Empire's mortgage loans from 1969 to 1975, such expansion does not appear to be any better than average when compared to the growth of the savings and loan industry in the Denver SMSA.[9]

With respect to Applicant's second and third contentions, it appears that Applicant has opened nine *de novo* offices of Empire since 1969 and has expanded business hours to include Friday nights and Saturdays at most of its branch offices. In addition, Applicant has provided Empire access to a computer system that expedites customer transactions. Affiliation with Applicant appears to have improved Empire's capital position, as is evidenced by an increase in Empire's equity-capital-to-assets ratio above the average for all savings and loan associations in Colorado as of December 31, 1975. The Board notes that, on the one hand, from 1969 to 1975, Empire performed better than its savings and loan industry competitors in the relevant market with respect to deposit growth; became better capitalized than other Colorado savings and loan associations; and provided its customers new services and expanded facilities. On the other hand, in the light of the fact that savings and loan associations are primary funding sources for mortgage loans, the Board notes that Empire has not performed significantly better than the average savings and loan association with respect to mortgage originations. In addition, even Applicant concedes that some of the benefits claimed to have occurred as a result of affiliation with Empire would have occurred over time even absent affiliation with Applicant.

The Board is of the view that the public benefits claimed by Applicant may have resulted, in part, from Empire's affiliation with Applicant. However, the Board is unable to conclude that the benefits claimed by Applicant are unique to its ownership of Empire or that Empire could not have achieved such benefits on its own. Empire was the fourth largest savings and loan association in Colorado in 1969 (total deposits of $122.2 million and total mortgage loans outstanding of $149.5 million) and was an effective and viable competitor at the time of its acquisition by Applicant. There is no indication that it would not have been able to continue to play an effective role in serving various areas in Colorado if it had not been acquired by Applicant. Therefore, in view of the foregoing, the Board concludes that public benefits

[8]Applicant, through a subsidiary bank, and Empire, through certain of its branches, also compete in the Greeley market for time and savings deposits and mortgage loans. Because of their existing common ownership, Applicant and Empire do not now compete with each other. However, the public benefits to be derived from the disaffiliation would also enhance future competition in the Greeley market.

[9]Part of the increase occurred as a result of the merger of Empire with Jefferson S&L (see footnote 4).

considerations are not sufficient to outweigh the adverse effects upon competition that the Board has found in connection with the proposal.

Although Applicant's acquisition of Empire eliminated existing competition, there is no evidence in the record that its affiliation with Empire has resulted in any undue concentration of resources, conflicts of interests, unsound banking practices, or unfair competition. Nevertheless, the Board concludes that the adverse effects upon competition resulting from the acquisition are not outweighed by any benefits to the public that resulted from the acquisition or that can reasonably be expected to be produced by the continued affiliation of Applicant and Empire and, accordingly, the application should be denied.

While the Board believes that the present application should be denied on the basis of factors relating to this case alone, it recognizes that this would be the third case in which the Board has refused to permit a bank holding company to own a savings and loan association based upon factors unique to the individual application, and that such action might imply that the Board would approve an application presenting no adverse market or other factors in and of itself. For this reason, the Board believes it appropriate to address an alternative and broader ground for action of this application– namely, whether the savings and loan business should in general be considered a "proper incident" to banking within the meaning of section 4(c)(8).

Even if the Board were not to have determined that Applicant's retention of Empire could not be expected, on the facts of this case, to produce public benefits that outweigh possible adverse effects, the Board has concluded, on the basis of the broader issues raised by this application, that the savings and loan business, generally, albeit "closely related" to banking, should not be determined by the Board to be a "proper incident" to banking. While the Board recognizes that there may well be individual cases of affiliations between banks and savings and loan associations in which no adverse competitive considerations are presented, and in which compelling arguments may be made that, on the particular facts presented, public benefits may be realized in a particular market, the Board has nevertheless concluded, for the reasons set forth below, that the potential adverse effects of generally allowing affiliations of banks and savings and loan associations are presently sufficiently strong to outweigh such benefits as might result in individual cases. Accordingly, the Board believes that the judgment to permit such affiliations on a broad scale should be left to the Congress.[10]

In determining the broad "proper incident" question the Board has considered, apart from the adverse competitive effects of this particular application, the more general effects that are likely to result from permitting bank holding companies to acquire savings and loan associations. One of the principal factors the Board has considered is the conflict between the regulatory framework within which banks and savings and loan associations operate.

Savings and loan associations are authorized under applicable State and Federal law and regulations to engage, either directly or through subsidiary service corporations, in a number of activities—such as real estate development, property management and the operation of insurance agencies dealing in homeowners, fire, theft, automobile, life, health, accident, and title insurance – that have heretofore been deemed impermissible by this Board for bank holding companies. Thus, if the Board were now to allow bank holding companies to enter the savings and loan business, it would be faced with a difficult issue in defining the permissible scope of that business as conducted by a bank holding company subsidiary. Indeed, this issue is presented in the instant case in view of Empire's activities, and those of its service corporation subsidiary, in such fields as insurance sales, land development and property management. On the one hand, if the Board were to permit a company such as Applicant to engage through a subsidiary S&L in real estate development, property management and insurance agency operations, it would be acting in conflict with earlier decisions[11] holding such activities to be

[10] The Board has permitted affiliations between banks and thrifts in one narrow circumstance. Specifically, it has allowed mutual thrift institutions in Rhode Island to hold interests in commercial banks. See Newport Savings and Loan Association, 58 *Federal Reserve* BULLETIN 313 (1972), and Old Colony Co-operative Bank, 58 *Federal Reserve* BULLETIN 417 (1972). These decisions were based upon the unique, historical situation in Rhode Island, however, where there was a pervasive pattern of ownership of banks by mutual thrift institutions, such that a thrift lacking such an affiliation was at a distinct competitive disadvantage. See also Profile Bankshares, Inc., 61 *Federal Reserve* BULLETIN 901 (1975).

[11] The Board has already determined that real estate brokerage, real estate syndication, land development, and property management are activities *not* so closely related to banking or managing or controlling banks as to be a proper incident thereto. See 12 CFR § 225.126 (1976)

impermissible for bank holding companies. Having done so, it would thereafter be difficult for the Board to deny such activities to bank holding companies that did *not* operate savings and loan associations. On the other hand, if it denied a bank-affiliated savings and loan association permission to engage in such activities or conditioned approval on termination of such activities and it could well be that such a result would be required by section 4(c)(8) savings and loan associations owned by bank holding companies might then not only be at a competitive disadvantage with respect to savings and loan associations not affiliated with banks, but they would also be limited in their ability to provide a full range of S&L services to the public. The Federal Home Loan Bank Board, which has opposed the acquisition of savings and loans by bank holding companies, has expressed the view in this case that if the Board were to impose such limitations as a predicate for allowing a bank holding company to acquire an S&L, the Board would be "in effect redefining the role of the savings and loan."

Administrative resolution of this conflict in regulation is made more difficult by the fact that while S&L holding companies operate under somewhat more permissible rules than bank holding companies in certain regards, there are more stringent limitations in others. For example, section 408(c) of the National Housing Act, which deals with the permissible activities of savings and loan holding companies, imposes virtually no restrictions upon the non-S&L activities of holding companies that own only one savings and loan association. However, section 408(c)(2), which has as its model the pre-1970 provisions of the Bank Holding Company Act, which were inapplicable to one-bank holding companies, imposes strict limitations on the non-S&L activities of holding companies that own more than one savings and loan association. In general, only activities determined by the FHLBB to be "a proper incident to the operations of insured institutions and not detrimental to the interests of savings account holders therein" may be permitted. The FHLBB regulations implementing section 408(c)(2) and setting forth the permissible activities of "multiple" savings and loan holding companies, 12 CFR § 584.2-1, do not include the operation of a commercial bank or of certain other activities that this Board has found permissible for bank holding companies under section 4(c)(8). In fact, in the *American Fletcher* proceeding the FHLBB stated that it did not intend to hold that commercial banking was a proper incident to the operation of an insured savings and loan. Thus, if this Board were to conclude that the savings and loan business is a "proper incident" to banking, a clear regulatory conflict would exist. Any bank holding company that thereafter was permitted to acquire a savings and loan association would effectively be prohibited from acquiring any additional savings and loan association. Moreover, even if the FHLBB did permit a "multiple" savings and loan holding company to acquire a bank, it seems clear that the resulting bank-S&L holding company would be precluded, under FHLBB regulations implementing section 4(c)(2) of the National Housing Act, from engaging in many activities that this Board has found permissible for bank holding companies.

In the *American Fletcher* case, the Board noted that the mere existence of separate regulatory framework for banks and S&Ls does not necessarily imply that Congress intended to prohibit common ownership of the two types of institutions. In that case, however, the Board denied the application without reaching the broad issue raised here. In the present case, the scope of the activities carried on by Empire has required the Board to focus upon these conflicts between the regulatory structures. In effect, savings and loan regulators, acting pursuant to their legislative mandates, have decided that it is in the public interest for savings and loan associations to be able to provide certain services that are incidental to the savings and loan business. The Board, on the other hand, has decided under the standards of the Bank Holding Company Act that the public interest would be disserved by allowing bank holding companies to engage in the same activities. A conflict in regulation has arisen only because of the proposal to allow the creation of holding companies that would operate subject to both sets of regulators. This conflict cannot responsibly be reconciled unilaterally by this Board through the imposition of a regulatory restriction truncating the activities of bank-affiliated S&Ls to fit within the confines of the Bank Holding Company Act, for to do so could prevent full realization of the public benefits that might be expected from the operation of a savings and loan association. The conflict can be resolved only by Congress. Until it is resolved it must be viewed as a significant adverse factor that precludes the Board from finding, under the standards of the Bank Holding Company Act as presently in effect, that the operation of a savings and loan association is a "proper incident" to banking.

The Board also recognizes that disparities in the respective regulatory frameworks within which banks and S&Ls operate has encouraged an institutional rivalry between the two industries that offers certain public benefits. Savings and loans, having as their principal function the provision of funds for housing, have traditionally had limited access and liability powers. As S&Ls have strived to increase their competitive positions with respect to commercial banks they have sought broader asset and liability powers. The development of NOW accounts is an example.

If the Board were to permit bank holding companies generally to acquire savings and loan associations, such action could set in motion a train of events that might tend to erode such institutional rivalry, which would undoubtedly become less intense as banks and thrifts came under common control and the commonality of interest between the two industries grew.[12] The Board believes that a judgment having the potential for such long range effects should be made by Congress.

Congress has in fact been considering numerous proposals in recent years for expanding the powers of savings and loan associations, and the implications of such expansion provide an additional basis for the Board to conclude that it should not deem the savings and loan business to be a "proper incident" to banking under presently applicable standards. Although savings and loan associations are not currently considered to be "banks" within the definition of "bank" in section 2(c) of the Bank Holding Company Act—because they do not both take demand deposits and make commercial loans—there have been repeated efforts to expand their powers and to make them more nearly equivalent to those of banks.[13] As the Board stated in the *American Fletcher* decision at 60 *Federal Reserve* BULLETIN 869 (1974):

> [T]here is a discernible trend toward lessening distinctions between banks and savings and loan associations. Geographic restrictions on mortgage lending by savings and loan associations have been liberalized. Recently, savings and loan associations were permitted by the Federal Home Loan Bank Board to participate in the Federal funds market, previously dominated by commercial banks. Savings and loan associations recently were authorized to offer large negotiable certificates of deposit. The role of savings and loan associations in the nation's payments mechanism is growing. The President's Commission on Financial Institutions and others have made proposals to expand the powers of savings and loan associations. The close relationship between banking and operation of savings and loan associations would become even closer should these proposals be implemented. Should this trend continue to the point where savings and loan associations both accept demand deposits and engage in the business of making commercial loans, savings and loan associations would actually become "banks" for purposes of the Act.

The Bank Holding Company Act imposes certain restrictions with respect to banks that are not applicable to nonbanks—most notably, a bank holding company cannot acquire a "bank" in a State other than that in which it does its principal banking business. As the Board noted in *American Fletcher*, this restriction would not currently apply to the acquisition of a savings and loan association because they are not now technically "banks" for purposes of the Act. However, if the Board were presently to permit bank holding companies to acquire savings and loan associations in other States—and the desire to avoid acquisitions threatening adverse competitive consequences in particular markets might well compel bank holding companies to look to other States for savings and loan association acquisitions—it could develop in time, if savings and loan association powers expanded, that savings and loan associations would satisfy the definition of "bank" and that the interstate banking prohibitions of the Act had been substantially undermined by earlier

[12] While at present only about 15 per cent of the Federally-insured savings and loan associations in the country are stock companies (representing about 22 per cent of the assets of all such savings and loan associations), and thus potential candidates for acquisition, that percentage would be very likely to increase significantly if conversions of mutuals were to be generally authorized. In Public Law 93-495 Congress authorized a limited number of conversions of mutual savings and loan associations to the stock form. The FHLBB has received approximately 70 applications for conversions and has approved 24. The 17 associations that have already converted represent more than $2 billion in assets.

[13] See opposite column for footnote.

[13] The proposed "Financial Reform Act of 1976," H.R. 13077, 94th Cong., 2d Sess., would have authorized Federally-chartered savings and loan associations to make loans for education; consumer loans; loans for "community conservation, development, or improvement"; loans to corporations whose activities "are reasonably related to the activities of [savings and loan] associations;" and loans to States and their subdivisions.

affiliations between commercial banks and savings and loan associations. While the import of this decision may be that the savings and loan business is *so* closely related to banking that it should not be viewed as a "proper incident" to banking, the Board has concluded that the decision should be left to Congress whether, in light of the policies underlying the Bank Holding Company Act, such "near-banks" should be treated as "banks" or "nonbanks".

For the foregoing reasons and other considerations reflected in the record, the Board has determined that the operation of a savings and loan association, although closely related to banking or managing or controlling banks, is not a proper incident to banking. Therefore, the subject application is hereby denied.

In reaching this decision, the Board wishes to emphasize that the conclusions reflected herein are expressed only within the boundaries of the Board's responsibilities under the Bank Holding Company Act as currently in effect, and are applicable only with respect to the present regulatory framework and the characteristics of banks and S&Ls as they presently operate within that framework. The Board does not intend to suggest that affiliations between banks and thrift institutions should not be permitted under any circumstances.

By order of the Board of Governors, effective February 22, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

(Signed) THEODORE E. ALLISON,
[SEAL] *Secretary of the Board.*

First Security Corporation,
Salt Lake City, Utah

Order Denying Request for Reconsideration

First Security Corporation, Salt Lake City, Utah ("FSC"), has requested that the Board reconsider and modify its Order of July 30, 1976 (the "July 30 Order"), denying any further extension of time for divestiture by FSC of its ownership of First Security Savings and Loan Association of Pocatello, Idaho ("FSS&L"), and ordering FSC to file a divestiture plan and to effect a divestiture of FSS&L. Among the grounds advanced in support of FSC's request are its contention that FSC's acquisition of FSS&L in 1970, without the prior approval of the Board, was not a "willful" violation of the Bank Holding Company Act ("Act"), and that FSC's continued holding of FSS&L subsequent to that acquisition was not contrary to the directives given to FSC by the Federal Reserve Bank of San Francisco ("Reserve Bank") and the Board in 1971 and 1972, respectively, to divest FSS&L.

The circumstances concerning FSC's ownership of FSS&L are set forth in the July 30 Order, and nothing submitted by FSC in support of its request for reconsideration leads the Board to conclude that the operative facts are other than as stated in that Order. Specifically, the record establishes that on April 1, 1970, at a time when First Security Investment Corporation ("FSIC") had pending in escrow a sale of its controlling interest in FSS&L to U.I.P. Corporation, Milwaukee, Wisconsin ("UIP"), FSIC merged into FSC. The Board concluded in the July 30 Order that upon consummation of the FSIC-FSC merger FSC acquired control of FSS&L, within the meaning of section 2(a) of the Act, without the prior approval of the Board, and the material submitted with the request for reconsideration has not caused the Board to alter that conclusion. On September 30, 1970, the Federal Home Loan Bank Board denied UIP's application under section 408 of the National Housing Act for permission to acquire control of FSS&L, and the shares of FSS&L held in escrow were thereupon delivered to FSC. FSC was subsequently advised by the Federal Reserve Bank of San Francisco that its acquisition of FSS&L violated the Act and it was directed to take steps to effect a divestiture.

Over a period of several years following the initial instruction to FSC to divest FSS&L, the Reserve Bank, with the concurrence of Board staff, granted FSC a number of extensions of the time within which to effect the divestiture. The premise for the extensions was that the Board had under consideration the general question whether the operation of a savings and loan association should be deemed to be a permissible activity for a bank holding company, and that if this activity were to be permitted, the Board might entertain an application from FSC to retain the shares of FSS&L. Late in 1975, after consultations with the Reserve Bank, FSC submitted an application to retain the shares of FSS&L, which was transmitted to the Board in May 1976. On July 30, 1976, before notice of the application had been published in the *Federal Register*, the Board considered

FSC's request for a further extension of time to divest FSS&L. As of that date the Board had still not decided that the operation of a savings and loan asosciation was a permissible activity for bank holding companies, and it determined in the July 30 Order not to grant any further extension of time for divestiture of FSS&L by FSC. On August 23, 1976, FSC filed its request for reconsideration of the July 30 Order. On September 15, 1976, the Board extended the time for the filing of a divestiture plan until a date following action on the request for reconsideration, and on November 8, 1976, the Board extended the time for divestiture until such date as might be fixed in an order deciding the request for reconsideration.

In considering the application of D. H. Baldwin Company, Cincinnati, Ohio, for permission to retain control of Empire Savings, Building and Loan Association, Denver, Colorado, the Board has today decided, both as to the facts of that case and as a general matter, that the operation of a savings and loan association is not a proper incident to banking, within the meaning of section 4(c)(8) of the Act. In light of this decision the Board has determined that FSC's request for reconsideration should be denied as moot.

Accordingly, the dates fixed in the Board's Order of July 30, 1976, for the filing of a plan of divestiture and for the completion of divestiture by FSC are hereby extended as follows: FSC is directed to file a plan of divestiture for approval no later than May 22, 1977, and to accomplish divestiture no later than August 22, 1977. The length of these periods has been expanded beyond those fixed in the July 30 Order principally in consideration of FSC's contention that damage caused by the collapse of the Teton Dam in 1976 may have an impact upon the business of FSS&L conducted from its Rexburg, Idaho office.

By order of the Board of Governors, effective February 22, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

Votes against this action: None.

(Signed) THEODORE E. ALLISON,
[SEAL] *Secretary of the Board.*

Patagonia Corporation,
Tucson, Arizona

Determination Regarding "Grandfather" Privileges Under Bank Holding Company Act

Section 4 of the Bank Holding Company Act (12 U.S.C. 1843) provides certain privileges ("grandfather" privileges) with respect to nonbanking activities of a company that, by virtue of the 1970 Amendments of the Bank Holding Company Act, became subject to the Bank Holding Company Act ("Act"). Pursuant to § 4(a)(2) of the Act, a "company covered in 1970" may continue to engage, either directly or through a subsidiary, in those nonbanking activities that such a company was lawfully engaged in on June 30, 1968 (or on a date subsequent to June 30, 1968, in the case of activities carried on as a result of the acquisition by such company or subsidiary, pursuant to a binding written contract entered into on or before June 30, 1968, of another company engaged in such activities at the time of the acquisition), and has been continuously engaged in since June 30, 1968 (or such subsequent date).

Section 4(a)(2) of the Act provides, *inter alia*, that the Board of Governors of the Federal Reserve System may terminate such grandfather privileges if, having due regard to the purpose of the Act, the Board determines that such action is necessary to prevent an undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. With respect to a company that controls a bank with assets in excess of $60 million on or after December 31, 1970, the Board is required to make such a determination within a two-year period.

By petition, dated June 28, 1972, Patagonia Corporation ("Patagonia"), Tucson, Arizona, requested a determination by the Board, pursuant to section 2(d)(3) of the Act (12 U.S.C. § 1841(d)(3)), that on or before June 30, 1968, Patagonia had the power to exercise a controlling influence over Pima Savings and Loan Association ("Pima"), Tucson, Arizona, and, therefore, that Pima was an indefinitely grandfathered "subsidiary" of Patagonia pursuant to section 4(a)(2) of the Act (12 U.S.C. § 1843(a)(2)). By Order dated June 29, 1973 (38 *Fed. Reg.* 18411), the Board determined the grandfather privileges of Patagonia, finding that it was entitled to retain indefinitely on the basis of § 4(a)(2) of the Act only the 20.005 per cent of the outstanding voting stock of Pima that it acquired before June 30, 1968 and that it was required to divest itself of, or obtain the Board's approval to retain by December 31, 1980, the almost 80 per cent interest in Pima that it acquired after June 30, 1968. By letter of July 6, 1973, the Board informed Patagonia that its request for a controlling influence determination had been denied on the ground that any such determination could not grant Patagonia grandfather privileges. However, the Board went on to state that, after examining the material Patagonia had submitted with its request, it was of the opinion that Patagonia did not have the power to exercise a controlling influence over the management or affairs of Pima on June 30, 1968.

Upon judicial review, the United States Court of Appeals for the Ninth Circuit vacated those portions of the Board's Order dealing with grandfather rights to the 80 per cent interest in Pima acquired after June 30, 1968; and, in a decision rendered May 19, 1975, the Court remanded the matter to the Board with instructions to hold a formal hearing on the issue of whether Patagonia did, in fact, have the power to exercise a controlling influence over Pima Savings and Loan Association on or before June 30, 1968.[1] The required formal hearing was held in Tucson, Arizona, from September 30, 1975 through October 3, 1975, before Philip J. LaMacchia, former Administrative Law Judge, now retired, in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR Part 263). A substantial record on the issue was developed through extensive testimony by witnesses on behalf of Patagonia, through cross examination of witnesses by Board counsel, and through numerous exhibits submitted by both parties to the proceeding.

In a Recommended Decision dated March 31, 1976, the Administrative Law Judge concluded on the basis of the evidence of record that Patagonia did not have the power directly or indirectly to exercise a controlling influence with respect to the management or policies of Pima on or before June 30, 1968, and, therefore, Pima was not a subsidiary of Patagonia within the meaning of § 2(d)(3) of the Act (12 U.S.C. § 1841(d)(3)). Therefore, Patagonia was not engaged within the meaning of § 4(a)(2) of the Act, in the savings and loan business on June 30, 1968, directly or through a subsidiary.

With respect to Patagonia's claim that Pima was its subsidiary on June 30, 1968 by reason of Patagonia's power to exercise a controlling influence over the management or policies of Pima, the Board, having considered the entire record of the hearing, including the transcript, exhibits, and briefs filed in connection with the hearing, and the Recommended Decision filed by the Administrative Law Judge, together with Patagonia's exceptions and Board counsel's response thereto, has determined that the Administrative Law Judge's findings of fact, conclusions and recommendations are substantially correct in all respects material to the Board's decision herein, and, as modified and supplemented herein, are supported by the evidence of record and should be, and are, adopted as the findings and conclusions of the Board.

Background:

Pima Savings and Loan Association was organized in 1953 by Messrs. Irving Hall, Elmer Present, Frank O'Reilly, B. G. Beck, and B. G. Thompson, who composed its first board of directors.[2] At that time, Mr. Hall owned 50.5 per cent of Pima's outstanding shares.[3] In 1956, at Mr. Hall's request, Mr. John Sakrison joined Pima as its president, chief executive officer, and a member of the board of directors.[4] In November 1956, Mr. Hall agreed to allow Mr. Sakrison to purchase up to 50 per cent of the shares that he held, and further agreed that Mr. Sakrison could vote all of Mr. Hall's stock in Pima so long as Mr. Sakrison remained in the employ of Pima.[5] Mr. Hall and Mr. Sakrison agreed in 1957 that neither could sell or otherwise dispose of his stock in Pima without the written consent of the other. These agreements also bound Mrs. Hall in the event of Mr. Hall's death.[6] As a result of these agreements, in 1957 and 1958 Mr. Sakrison purchased slightly in excess of 25 per cent of Pima's voting stock.[7]

In 1958 Mr. Kenneth Herman joined Pima at Mr. Sakrison's request as vice president and became a member of Pima's board of directors.[8] Mr. and Mrs. Hall sold Mr. Herman some of their Pima shares; however, Mr. Sakrison retained the right to vote those shares and to veto their sale.[9] Further, in the event Mr. Hall and Mr. Sakrison sold their interests in Pima, Mr. Herman was obligated to sell his stock to their purchaser.[10] Mr. Hall died in 1959 and Mrs. Hall inherited his shares.[11]

As a result of other transactions, by 1967 Mr. Sakrison's control was reduced to approximately 40+ per cent of Pima's guarantee stock.[12] However, Mr. Sakrison also held the voting proxies

[1]See pp. 299 and 300 for footnotes to this order.

of Pima's borrowers and depositors which, when combined with his own guarantee stock and the stock he voted pursuant to the agreements, gave him control of substantially in excess of 50 per cent of Pima's voting power.[13]

In June of 1967, Mrs. Hall determined to sell her stock directly and indirectly to Patagonia Corporation.[14] At the time of the sale Mr. Sakrison, as required by the agreement, gave his consent and the agreements with Mrs. Hall and Mr. Herman were terminated.[15] At the same time Patagonia purchased a few additional shares from another party, with the result that Patagonia controlled slightly in excess of 20 per cent of Pima's guarantee stock.[16]

As a result of these transactions, Mr. Sakrison lost control of a majority of Pima's voting stock for the first time in his association with it.[17] However, less than two weeks after Patagonia's purchase of Mrs. Hall's stock, Mr. Sakrison and the other Pima directors and substantial stockholders consolidated approximately 56 per cent of Pima's outstanding guarantee stock in a voting trust.[18] By virtue of this trust, Mr. Sakrison retained control since the voting trustees were Mr. Sakrison and his two long-time friends and business associates Mr. Present and Mr. O'Reilly.[19] Under the terms of the trust, the trustees had to unanimously agree before the stock held in the voting trust could be sold.[20] In addition, they agreed not to sell until a prospective purchaser guaranteed to purchase all the stock in the trust at a price and terms decided on by the trustees.[21]

In July 1967, Mr. Williams and Mr. Money were elected to Pima's board of directors as Patagonia's representatives.[22] Mr. Williams was the largest shareholder and a founder of Patagonia and Mr. Money the third-largest shareholder and also a founder of Patagonia.[23] In February 1968, Mr. Raymond Rich was elected to Pima's board of directors. Mr. Rich was also one of the founders of Patagonia and was a major driving force behind it.[24] As a result of these occurrences, Patagonia was represented by three of the 15 Pima directors.[25] This situation obtained through October 1968, when, at a meeting between Mr. Rich and Mr. Sakrison, an agreement on the sale of Pima was reached.[26] In June of 1969 Patagonia purchased control of Pima.

Patagonia claims that, notwithstanding the fact that it did not acquire 25 per cent or more of the voting shares of Pima until June 1969, Pima was a subsidiary on June 30, 1968 by virtue of the fact that Patagonia had the power to exercise a controlling influence over its management or policies. Patagonia raises various arguments concerning the existence of this power. Among other arguments, it contends that, because of its slightly more than 20 per cent interest, Patagonia had the potential for exercising a restraint on various types of corporate action or a sale by stockholders and therefore exercised a controlling influence. Further, Patagonia argues it had a controlling influence by virtue of the desire of Mr. Sakrison and his associates to sell to Patagonia and by virtue of Mr. Sakrison's desire that his associates continue in employment in the event Patagonia was the purchaser. Additionally, Patagonia argues that the judgment and experience of its representatives on the board of directors gave them a controlling influence in the formulation of Pima's actions and long-range policies.

Statutory Framework for the Board's Decision:

The relevant part of § 4(a)(2) of the Bank Holding Company Act provides:

> That a company covered in 1970 may also engage in those activities in which directly or through a subsidiary (i) it was lawfully engaged on June 30, 1968 (or on a date subsequent to June 30, 1968 in the case of activities carried on as a result of the acquisition by such company or subsidiary, pursuant to a binding written contract entered into on or before June 30, 1968, of another company engaged in such activities at the time of the acquisition). . . .

Therefore, the question for the Board is whether Patagonia can be considered to have been engaged through Pima in the savings and loan business on June 30, 1968. To have been so engaged, Pima must qualify as a subsidiary as of that date. Subsidiary is defined by § 2(d)(3) of the Act as meaning with respect to a specified bank holding company:

> . . . any company with respect to the management or policies of which such bank holding company has the power, directly or indirectly, to exercise a controlling influence, as determined by the Board after notice and opportunity for hearing.

There are no judicial decisions interpreting the concept of controlling influence in the Bank Holding Company Act. However, this concept appears in both § 2(a)(9) of the Investment Company Act of 1940 [15 U.S.C. § 80a-2(a)(9)] and in § 2(a)(8) of the Public Utility Holding Company Act [15 U.S.C. § 79b(a)(8)]. With respect to those acts there have been a number of judicial and administrative interpretations defining the scope of the term.[26]

Among others, the following statements have been made about the power to exercise a controlling influence:

> The existence of "controlling influence" is a factual determination to be ascertained in the Commission's expert judgment by the weighing of circumstantial evidence and the drawing of reasonable inferences therefrom. The principal factors in determining this from the special circumstances of each case for the statutory exemption are the size and extent of the companies involved, the extent of the intercompany relationships, the ownership and distribution of securities, and the parent company's part in the organization and development of the subsidiary company together with the past relationships. . . . (Footnotes omitted.) *American Gas and Electric Co.* v. *S.E.C.*, 134 F.2d 633, 642, (D.C. Cir. 1943)
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> Considered in the light of the legislative history and the over-all purposes of the statute, it is clear that the statutory concept of control embraces within it those pressures and influences, at times admittedly delicate, by which an investment company can exercise a dominating persuasiveness in the affairs of the portfolio company. And this "does not necessarily mean that those exercising a controlling influence must be able to carry their point. A controlling influence may be effective without accomplishing its purpose fully." Nor is it necessary that there be an actual exercise of the "controlling influence." It is sufficient if the power exists in a latent form. In determining the existence of this latent power, consideration may of course be given to events which have not occurred but may occur and which would result in the invocation of the latent power. (Footnotes omitted.) *The Chicago Corporation*, 28 S.E.C. 463, 468 (1948)

An analysis of the administrative and judicial cases in this area convinces the Board that there is, and can be, no standard definition of the term "power to exercise a controlling influence" which might be applied by the Board. Rather, as the Securities and Exchange Commission has noted:

> Control determinations involve issues of fact which cannot be resolved by the use of a mathematical formula. Each requires a careful appraisal of the whole effect of the various relations and other circumstances present in the particular case, some of which may point to one inference while others to an opposite one. *Investors Mutual*, CCH Fed. Sec. Law Rep. ¶ 77, 348 at ¶ 82,635

The Board believes that in determining the nature of the facts to look for in order to decide whether a controlling influence exists, great weight should be given to the purposes of the statute in which the term appears and the context within the statute in which it appears. This point has previously been recognized by both the SEC and the courts. The context and purposes of the term "power to exercise a controlling influence" are somewhat different in the Bank Holding Company Act than in the Public Utility Holding Company Act or the Investment Company Act.

First, there are structural differences in the statutes. For instance, the latter two statutes create a presumption of control by virtue of a certain level of stock ownership. Thus, the proceedings in which the above statements about controlling influence were made were ones in which a company was attempting to establish that it did not exercise a controlling influence despite the presumption to the contrary. As the court stated in *Koppers United Co.* v. *S.E.C.*:

> The theory of the Act is that ownership of more than ten per cent of a corporation's stock is sufficient to show control or a controlling influence, unless in a particular case other facts rebut that inference. [138 F.2d, 577, 580 (1943)]

Secondly, the latter two statutes have different purposes. As an example, the Public Utility Holding Company Act requires that the determination as to whether the management or policies of a company are subject to a controlling influence be guided by the purpose of the inquiry. That is, is a company's influence such "as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that the applicant be subject to the obligations, duties, and liabilities imposed in this chapter"?

There are clearly different standards to be employed in making a judgment as to whether the influence of a company in another company's operations is significant enough that investors or consumers should be entitled to appropriate information and other protections than in determining whether a company may be considered to have been so involved with another company that it might be considered to have been engaged in that company's business.[28]

The purpose of the inquiry under § 4(a) of the Bank Holding Company Act is to determine in this case whether Patagonia can be considered to have been engaged in the savings and loan business through Pima, a subsidiary, on the June 30, 1968 date. The definition of subsidiary in § 2(d)(3) speaks in terms of the "power to exercise" a controlling influence. This section, however, was added by Congress to conform to § 2(a)(2)(C) of the Act,[29] which provides that a company has control over another company if it "exercises" a controlling influence. The original amendment was offered by Congressman Ashley, and from statements by him and Congressman Patman it was clear that they intended to reach situations of *actual* control.[29a] This difference is of very little importance, however, and may be primarily semantic. Congress intended to allow bank holding companies which were engaged in a particular business on the grandfather date to continue to engage in that business since the primary purpose of the legislation was to prevent future abuses rather than to remedy existing ones. The Board believes that the test is, therefore, whether a company may be considered to have been so influential in the affairs of a particular company as to be considered to have been engaged in that business on June 30, 1968.

Obviously, there may be no evidence which bears directly on happenings on that date. In the Board's view, the proper approach to the question is to examine relatively contemporaneous evidence both before and after the June 30 date to determine whether it is likely that a power to exercise a controlling influence existed on that date such that a company should be considered to have been engaged in the business of another company. In this regard, the Board, while adopting the hearing officer's findings of fact and conclusions of law to the extent not inconsistent herewith, has, among other things, considered the following: whether there are facts in the record which demonstrate an actual exercise of a controlling influence; or whether the record discloses that the structure of the situation was such that the power to exercise a controlling influence is likely to have existed even though actual evidence of its exercise may not have been obvious; or, finally, whether there are sufficient events in the record from which one can infer that a controlling influence must have been exercised. The Board now turns to a discussion of whether the facts of record lead one to the conclusion that Patagonia was engaged, through Pima, in the savings and loan business.

Analysis of Whether the Power to Exercise a Controlling Influence Existed on June 30, 1968

1. Are there events evidencing an actual exercise of a controlling influence over the management or policies of Pima?

Patagonia, through the testimony of its witnesses at the hearing, cited various examples which it claimed showed its actual exercise of a controlling influence over the management or policies of Pima.

Mr. Kenneth H. Herman, formerly Executive Vice President of Pima, subsequently President, and a member of the Board of Directors of Pima, cited two examples of Patagonia's influence over the management or policies of Pima through Mr. Raymond A. Rich, who was a member of the Board of Directors of Pima in 1968 and subsequently the Chariman of the Board of Patagonia. Mr. Herman cited Mr. Rich's influence in changing Pima's longstanding policy against leveraging (using borrowed funds to expand Pima's lending capability).[30] However, the record shows, and the Administrative Law Judge found, that Pima's policy on leveraging did not change until 1969, after Mr. Sakrison had sold his shares and Patagonia had acquired majority control of Pima's voting stock.[31] The second example Mr. Herman cited was Mr. Rich's success in getting the Board of Pima to defer making a decision on whether to make a loan to a certain publicly held corporation. Based on information subsequently supplied by Mr. Rich, the loan was denied. However, the record supports the finding that both the deferral decision and the loan denial occurred after June 30, 1968.[32]

Patagonia also cited its influence through Mr. William C. Money, third largest stockholder of Patagonia, and a director of Pima. Mr. Herman credited Mr. Money with persuading Pima to move back more heavily into the VA and FHA mortgage market in 1968, aiding in the discussion of whether or not Pima should make a large commitment in the mobile home industry, assisting in dissuading Pima from entering the consumer lending business and establishing a salary committee.[33] The Administrative Law Judge found, and Mr. Sakrison testified, that the movement by Pima back into the FHA and VA market did not occur until after Patagonia purchased majority control of Pima in 1969.[34] Although the discussion of whether or not Pima should make a large commitment in the mobile home industry occurred during 1967-1968 according to Mr. Herman, the record shows and the Administrative Law Judge noted in his Recommended Decision, that both Arizona chartered and Federally chartered savings and loan associations were not authorized to make mobile home loans until July 1969.[35]

Mr. Herman also noted Mr. Money's influence in dissuading Pima from entering the consumer lending business in 1968, "when the vehicle was provided to savings and loans, by regulations. . . ."[36] The record shows that Pima did not in fact enter into the consumer lending business in 1968. Mr. Herman described the consumer lending business as "making loans, like a property improvement loan, a trailer loan, non-first real estate mortgage lending."[37] However, it appears that there was no change in the regulations prohibiting or permitting savings and loans to make consumer loans during 1967 or 1968.[38] Thus, Pima's refraining from making consumer loans of the type Mr. Herman described appears to have been the result of its abiding by the regulations restricting the types of loans savings and loans could make and not the result of Patagonia's exercising a controlling influence through Mr. Money to restrain Pima from entering the consumer lending business.

Finally, Mr. Herman pointed to Mr. Money's suggestion that Pima's Board establish a salary committee as an example of the controlling influence Patagonia exercised over the management and policies of Pima. At Pima's Board of Directors' meeting of January 9, 1968, Mr. Sakrison appointed a salary committee (Mr. Sakrison appointed all members of all committees) that included Mr. Money.[39] The minutes of the Board meeting do not indicate that the salary committee was formed at the suggestion of Mr. Money but, in any event, the formation of the committee was well received and supported by the entire Board. The salary committee did not have final authority over salaries; it merely made recommendations to Pima's Board, which retained ultimate authority in this area.[40]

The Board finds that the record simply does not contain direct evidence that Patagonia actually exercised a controlling influence over Pima. Rather, the record supports a finding that, up until Patagonia acquired a majority of the shares of Pima in 1969, Mr. Sakrison controlled a majority of the voting stock of Pima either through direct ownership or indirectly through a voting trust.[41] The record clearly indicates that Mr. Sakrison, as President of Pima, was in complete control of the management and policies of Pima. The few specific examples of influence by the three Patagonia directors on Pima's 15 member Board that Patagonia claimed represented the exercise of a controlling influence either occurred after June 30, 1968 or were not supported by the record. Mr. Sakrison himself could name no incident and no policy in which he differed with Patagonia's directors other than his policy against leveraging, which he refused to change until after he had sold his stock to Patagonia in 1969.[42]

2. Does an inference of either the power to exercise or the exercise of a controlling influence arise from the structure of the situation prior to or on June 30, 1968?

Patagonia's basic contentions in this regard are that the power generated by its ownership of slightly more than 20 per cent of the stock as well as its announced intention to buy a substantial additional block of stock in the future for cash gave it a controlling influence over the management or policies of Pima. They argue that this is due in part to Mr. Sakrison's desire to have his associates retained by Patagonia. Patagonia further claims that the qualitative aspects of Patagonia's representative directors on the Pima board gave it a controlilng influence.

The Board finds that, as of June 1967, Mr. Sakrison held 20.7 per cent of Pima's stock, Mrs. Hall (the widow of Pima's founder, Irving Hall) together with Dr. Elmer Yeoman (her advisor) owned 20.6 per cent of Pima's stock, and Elmer Present together with his family owned 15.3 per cent of Pima's stock. Neither Mr. Sakrison nor Mrs. Hall could sell their stock without the other's consent.[43] On June 29, 1967, Mr. Sakrison and Mrs. Hall terminated the agreement which restricted the sale of their Pima stock and Mrs. Hall disposed of all but 3,500 of her shares of Pima to Patagonia and Mr. David R. Williams, Jr. (a founder of Patagonia) for a combination of Patagonia stock and cash.[44]

On July 11, 1967, Mr. Sakrison and the other directors and substantial stockholders of Pima consolidated approximately 56 per cent of Pima's outstanding stock in a Voting Trust controlled by Messrs. Sakrison, Present and Frank C. O'Reilly (a founder of Pima and owner of 7 per cent of its stock).[45] The terms of the trust provided that the trustees had to unanimously agree to sell the stock held in trust and, only if the purchaser agreed to buy all the stock at a price agreed to unanimously by the Trustees, could the stock be sold at all.[46] At all times relevant to the issue of whether Patagonia had the power to exercise a controlling influence over the management or policies of Pima, the structure of the situation remained unchanged with respect to the quantitative ownership of the outstanding stock of Pima; Patagonia controlled 20.005 per cent and Mr. Sakrison controlled in excess of 56 per cent. In addition, Mr.

Sakrison had the power of proxy over the votes of the people entitled to vote at the annual meeting by reason of their deposits or outstanding loans with Pima.[47]

In terms of common directors, two Patagonia directors, Messrs. Williams and Money, were appointed to the Board of Directors of Pima in July 1967. Mr. Sakrison controlled the appointment of directors to Pima's Board and initially offered Patagonia three seats on the 15-man Board; however, on the advice of counsel, Mr. Rich waited until February 1968 to be elected to the Board since he was filling a vacancy caused by the death of a director rather than replacing a director who had sold his shares, as were Messrs. Williams and Money. The minutes of the relevant Board meetings show that after joining Pima's Board, Mr. Money attended 11 out of 12 of the meetings; Mr. Williams attended 3 out of 12 of the meetings; and Mr. Rich, who joined the Board in February 1968, attended 1 out of 5 of the meetings held prior to June 30, 1968.[48]

The record shows that there was no historical or traditional relationship between Pima and Patagonia from which a power to exercise a controlling influence could be inferred. Messrs. Williams and Rich first became aware of the possibility of acquiring Pima in February 1967, during the period when they were still forming Patagonia.[49] Through Mr. Ben Storck, a Tucson broker and business advisor to Mrs. Hall, the principals of the still-to-be-formed Patagonia were brought into contact with the principals of Pima (Mrs. Hall, Mr. Sakrison, and Mr. Present) in February 1967.[50] Although Mrs. Hall finally decided to exchange her shares of Pima for a combination of cash and Patagonia stock in June 1967, Messrs. Sakrison, Present and O'Reilly were adamant in their refusal to sell their shares for anything but cash.[51] Thus, the record shows that the relationship between Patagonia's and Pima's principals was not historically or traditionally close, but rather an arms-length relationship among businessmen from the very start. Furthermore, that relationship commenced in February 1967, only 16 months prior to June 30, 1968.

The record shows that there was no formal written contractual agreement between the principals of Pima and Patagonia. Messrs. Rich and Sakrison testified that there was an understanding between them that before Sakrison sold Pima to anyone else he would provide Patagonia with an opportunity to meet the price.[52] However, a letter from Mr. Storck to Mrs. Hall dated June 12, 1967 indicates that, at that time, Sakrison would not grant a right of first refusal to Patagonia.[53] In any case, whether there was an informal contractual right of first refusal or not, Mr. Sakrison's testimony shows that he was not influenced in his management of Pima by the prospect of a future sale to Patagonia.[54]

There may well be situations in which a 20 per cent shareholder may have the power to exercise a controlling influence over a corporation because of his ability to veto extraordinary corporate actions. These factors are relied on in some of the case law under other statutes. However, those cases did not involve situations where there were other shareholders who had absolute control.[55] Such a finding of influence cannot be made here where absolute control rested in the voting trust controlled by Mr. Sakrison. In fact, Sakrison testified, and contemporaneous evidence supports the conclusion, that the purpose of the voting trust was to keep Patagonia from gaining control.[56]

Likewise, the argument that Patagonia's representative Directors had qualitative aspects because of their wide business experience that led to a controlling influence does not appear to have merit. Mr. Sakrison could not name any actions that were taken by Pima at the request of Patagonia directors.[57] Nor could he recall any instances, prior to January 1969, in which he sought the counsel and advice of Messrs. Rich or Williams, although he felt he had but was not certain.[58] Furthermore, the minutes of the Board meetings held by Pima during this period do not indicate any events or actions that might give rise to an inference that Patagonia had the power to exercise a controlling influence over the management or policies of Pima.[58a] (See also Mr. Sakrison's testimony on this matter in the next section, which is equivocal on the question whether Patagonia's directors' views had greater weight.)

With respect to the question whether influence existed because of Sakrison's desire that his associates be retained, the hearing officer rejected this contention, stating, "There is no evidence that the career aspirations of Pima's management influenced any action which could be said to favor Patagonia. In the absence of any evidence to the contrary, the unflattering notion implicit in the point to be made here is rejected."[58b] The Board agrees that the record is devoid of any evidence indicating that the power to exercise a controlling influence arose from these considerations. In fact, in a related aspect, Mr. Sakrison testified that the prospect of an impending sale to Patagonia did not influence his conduct.[59]

3. Can a controlling influence be inferred from the events?

The Board believes that the record does not contain any events from which one can infer that the existence or exercise of a controlling influence on June 30, 1968 is more likely than not. Indeed, the events surrounding Patagonia's initial investment in Pima and the events surrounding Patagonia's acquisition of the majority of Pima's stock in 1969, weigh against an inference of a controlling influence over the management or policies of Pima.

The record shows that at the time Mrs. Hall sold her stock to Patagonia, Mr. Sakrison took steps to assure his continued complete control over Pima by forming a voting trust with the directors and large shareholders of Pima.[60] By its terms, the Voting Trust would not have been effective unless joined in by the holders of in excess of 50 per cent of Pima's stock.[61] Mr. Sakrison testified that the Voting Trust served several purposes, not the least of which was preventing Patagonia from gaining control of Pima.[62] Other testimony and written documentation in the record supports this version.[63] The formation of the Voting Trust was an event evidencing Patagonia's lack of control of Pima.

The record provides no evidence of any events that occurred during 1967 or 1968 that would give rise to an inference that Patagonia had the power to exercise a controlling influence over the management or policies of Pima. As has already been noted, no significant changes occurred in the way Pima conducted its business during this period. Mr. Sakrison could not name any specific examples of changes or actions that were taken by Pima at the request of the Patagonia directors.[64] Nor could he recall any instance, prior to January 1969, in which he sought the counsel and advice of Messrs. Rich or Williams, although he felt he had but was not certain.[65] Furthermore, Mr. Sakrison could not recall that Messrs. Rich or Williams set any of Pima's policies before January 1969.[66] Finally, Mr. Sakrison testified that there was no instance in which a strong conviction he held concerning a practice of Pima was opposed or changed during this period.[67] The minutes of the board meetings of Pima which were held during this period do not indicate any events or actions that might give rise to an inference that Patagonia had the power to exercise a controlling influence over the management or policies of Pima.[68]

Furthermore, the events surrounding Patagonia's acquisition of the shares of Pima controlled by the Sakrison group give rise to an inference that Patagonia had no power to exercise a controlling influence over the management (Mr. Sakrison) or policies of Pima. Mr. Sakrison, still seeking to sell his shares and those of the other shareholders who had joined the Voting Trust for cash, approached a savings and loan broker in the summer of 1968 to assist him in finding a cash purchaser. Mr. Sakrison did not inform Patagonia of his intentions and specifically instructed the broker not to contact Patagonia as a potential purchaser.[69] It was not until October 1968, after Mr. Sakrison had already turned down two potential purchasers and was considering a third, that Patagonia learned of Mr. Sakrison's efforts to sell the stock he controlled.[70] The Administrative Law Judge summarized the events leading to Patagonia's purchase of the remaining shares of Pima as follows:[71]

> Prior to leaving for Florida, Mr. Sakrison advised Mr. Rich of his scheduled meetings with the two prospective purchasers. Within an hour and a half Mr. Rich arrived at Mr. Sakrison's office to discuss a purchase of Pima. (Sakrison, Tr. 200). An Agreement of Sale was reached in less than an hour. (Sakrison, Tr. 200; Rich, Tr. 54). There was no negotiation with respect to the price per share, which had been previously set by the Voting Trustees at $9.50 per share, nor with respect to their demand for cash. (Sakrison, Tr. 200; Rich, Tr. 54-55, 120).

The $9.50 price per share was $2.00 per share higher than the amount Patagonia had paid for Mrs. Hall's stock 16 months earlier, and $3.58 over the book value per share as of December 31, 1968.[72] Following execution of an Agreement of Sale on October 28, 1968, it became apparent that the closing date of January 16, 1969 could not be met because of the need for approval of the Federal Home Loan Bank Board.[73] On January 9, 1969, a Modification Agreement was negotiated between Patagonia and Mr. Sakrison postponing the closing date and providing that if the transaction was not consummated by June 2, 1969, all parties would be released from any liability or obligation arising from the original Agreement of Sale of October 28, 1968.[74] Patagonia also consented to the payment of a cash dividend of 9.5¢

per share on all of the issued and outstanding stock of Pima, including the recently declared and paid stock dividend of 20 per cent.[75] This dividend was originally to have been paid solely to Patagonia.[76] Patagonia also agreed to pay an additional 10¢ per share for the Pima stock "to equitably compensate" the sellers "for the unforeseen delay".[77]

On January 14, 1969, the Voting Trustees (including Mr. Sakrison) gave Patagonia a written assurance that they, as Directors, and Mr. Sakrison, as President, would continue to operate Pima in accordance with the policies evolved and established over the years and, secondly, that they would "neither initiate, recommend or vote for any action which would cause Pima to waive any rights of substantial value, nor . . . initiate, recommend or vote for any action which would cause Pima to enter into any material transactions other than in the ordinary course of business."[78] The need for such written assurances contradicts any inference that Patagonia had the power to exercise a controlling influence over the management or policies of Pima.

Finally, in its application to the FSLIC for prior approval to acquire control of Pima filed on February 5, 1969, Patagonia did not claim Pima already was its subsidiary within the meaning of 12 U.S.C. § 1730(a)(2).[79] On June 11, 1969, Mr. Sakrison reported to the FHLBB pursuant to 12 U.S.C. § 1730(*l*) (1) that a change of control of Pima had occurred. 12 U.S.C. § 1730(*l*) (1) requires the president or chief executive of any insured institution to report to the FSLIC "whenever a change occurs in the outstanding voting stock of any insured institution which will result in control or a change in the control of such institution." Control is defined as "the power to directly or indirectly direct or cause the direction of the management or policies of the insured institution." 12 U.S.C. § 1730(*l*) (1) was enacted October 16, 1966, and was in effect during the time Patagonia claims to have had the power to exercise a controlling influence over the management or policies of Pima.[80]

The record thus shows that at the time Patagonia acquired its 20+ per cent interest in Pima from Mrs. Hall, Mr. Sakrison acted to ensure his continued absolute control of Pima by forming a voting trust that enabled him to control 56 per cent of the outstanding voting stock of Pima. During the period when Patagonia held 20+ per cent of Pima's stock, no significant events occurred that represented a change in the manner in which Pima conducted its business. The relevant minutes of the Board of Directors' meetings of Pima disclose no instances, and Mr. Sakrison could recall no specific instances, from which a power to exercise a controlling influence over the management or policies of Pima can be inferred. Finally, the events surrounding Patagonia's acquisition in 1969 of the shares of Pima controlled by Mr. Sakrison suggest that Patagonia had so little control over the situation that Mr. Sakrison was able to dictate not only the time of the sale, but also the premium price and the terms of sale, and it was necessary for Patagonia to get written assurances from the controlling stockholders and directors that they would not engage in or undertake any action that would materially affect the value of Pima's stock.

Furthermore, the testimony of the witnesses and the contemporaneous documents in the record do not provide a basis for inferring a power to exercise a controlling influence. The most important testimony in the record is that of Mr. Sakrison, whom all agree *was* the management of Pima and the person who established the policies of Pima that took it from an institution with $5.3 million of assets in 1956 to an institution with $83.8 million of assets in 1969.[81]

Mr. Sakrison stated that he did not express any hostility to the Patagonia people when they made their initial 20 per cent investment.[82] Yet in a letter dated May 7, 1968, to Pima's Federal Home Loan Bank Board Supervisory Agent, Mr. Sakrison explained the reason for the formation of the Voting Trust: "This agreement was entered into strictly to preclude a holding company from gaining control of Pima Savings and Loan Association."[83] Mr. Sakrison also testified that the Voting Trust prevented Patagonia from:

> "Gaining control by going around to individual stockholders and getting their stock, buying their stock and leaving me out, could have been accomplished. I would have been sitting there with my stock and they would have had the majority of the stock."[84]

On the question of influence over the management or policies of Pima, Mr. Sakrison testified that the Patagonia Directors were a valuable addition to Pima's board because they were businessmen who readily understood what the problems were.[85] However, he also testified that none of the three Patagonia directors added to the Pima Board had any savings and loan experience and that Pima had done quite well without them.[86] Pressed to explain his statement in an earlier affidavit that the addition of the Patagonia directors increased the functional capability of Pima's board, Mr. Sakrison stated that Messrs. Rich and Williams kept abreast of the money market, but could not provide any other specific examples.[87] Mr. Sakrison initially avoided answering the question whether he gave the Patagonia directors' views more weight than the views of other substantial stockholders of Pima.[88] He could not recollect whether Messrs. Rich and Williams set any policies before January 1969.[89] Mr. Sakrison couldn't be sure whether he ever affirmatively sought the counsel or advice of either Mr. Rich or Mr. Williams.[90] Mr. Sakrison testified that by June 30, 1968, ". . . it was all fixed in my mind that no doubt Patagonia would become the purchaser."[91] Furthermore, that knowledge did influence his conduct toward Messrs. Rich, Williams, and Money and Patagonia in the management of the affairs of Pima Savings and Loan, ". . . but I had a great respect for their ability and didn't want to just put it on that basis."[92]

At one point late in his testimony, Mr. Sakrison indicated that the Patagonia directors had an extraordinary influence beyond that of other directors because of their prestige and status, and that he had wooed them to a certain extent because he viewed Patagonia as the likely purchaser of his Pima stock.[93] When asked how this desire to sell affected Pima as an institution, Mr. Sakrison stated that ". . . we would certainly consult with the directors, Mr. Rich, Mr. Williams, and Mr. Money, prior to going ahead with the procedures and policies, as to their viewpoint on it."[94] Mr. Sakrison could not recall whether the Patagonia directors had asked him to consult with them, but did testify that "posibly I consulted with them more as to policy than I did with the other directors."[95] Mr. Sakrison could not provide an example of a strong conviction he had about a practice of Pima that was ever "battled" by any member of Pima's Board.[96] Finally, near the end of his testimony, Mr. Sakrison answered the following questions asked by the Administrative Law Judge.[97]

Judge LaMacchia:

Did you feel at any time prior to June 30, 1968, subordinate to Rich and Williams in connection with your administration of the affairs of Pima?

Mr. Sakrison:

No, I wouldn't say that I did. I did, though, value their opinion.

Judge LaMacchia:

Did the prospect of sale to Patagonia, following the sale of the Hall block, per se, influence your judgment as president of Pima?

Mr. Sakrison:

No, I don't believe it did.

Although other witnesses, including Messrs. Rich, Williams, Money, and Herman testified, their statements are inconclusive. In any event, if Mr. Sakrison, who was the management of Pima, could not provide an example of Patagonia's power to exercise a controlling influence over him and his policies, the statements of the other witnesses do not carry much weight.

Summary and Conclusion:

As previously noted, determining whether or not the power to exercise a controlling influence existed on a particular date requires a careful appraisal of the whole effect of the various relationships and other circumstances present in a particular case. The controlling influence provisions were added to the Bank Holding Company Act in 1970 at the Board's request. Shortly thereafter, the Board gave extensive consideration to the types of facts which could be considered to bear on the issue of control.

On July 9, 1971, the Board published for comment a proposed regulation establishing certain presumptions of control when certain factual circumstances were present (36 *Fed. Reg.* 12915). After consideration of very extensive public comment, the Board adopted a final regulation, effective September 21, 1971, which is found in § 225.2 of Regulation Y (12 CFR 225.2). On September 17, 1971 the Board instructed the Reserve Banks that:

> The Board regards the circumstances described in the rebuttable presumptions as constituting sufficient legal bases (unless evidence rebutting the presumptions is offered) upon which to make determinations of control and impose the sanctions of the Act upon the companies involved. There are a number of other circumstances that, standing alone, might not support valid presumptions of control but nevertheless are indicia of control and may call for further investigation to uncover facts that may support a determination of control.

Among the facts set forth by the Board as calling for a further investigation were:

> A company owning five per cent or more of a bank or bank holding company has been

> instrumental in: hiring or firing a person or persons; establishing policies or places for branches; establishing hours of business; deciding on rates, terms or acceptance of loans or deposits; following uniform advertising practices or using a common telephone system; or in any other respects directing the activities of management or establishing the policies of a bank or company.

While these factors were aimed primarily at a consideration of whether control existed over a bank, they are equally applicable to the exercise of controlling influence over other organizations. An examination of the facts found by the hearing officer and the Board in this case indicates that none of the presumptions of controlling influence apply to the relationship between Patagonia and Pima. Nor do facts similar to those cited by the Board as calling for a further investigation exist. As previously noted, it does not appear that the record establishes instances of actual control, or events or structural situations from which a controlling influence might readily be inferred.

Patagonia places great weight in establishing a controlling influence on the fact that it was viewed by Mr. Sakrison and the others as a probable purchaser of Pima for cash. We might note at this point that Congress may well have considered whether the prospect of a sale to a third party would necessarily give that party, through the seller, a controlling influence over the company sold. Congress adopted a provision allowing companies covered in 1970 to continue to engage in activities of a subsidiary acquired after the grandfather date pursuant to binding written contracts entered into before that date. It was stated:

> This latter provision was adopted in order to prevent inequities from arising with regard to a company which may have, in good faith, entered into a binding written contract to acquire a new subsidiary . . . and which otherwise would have been required under the provisions of this legislation to divest such subsidiary, even though it was legally committed to make the acquisition before the "grandfather" date adopted by the committee.[98]

Here, Patagonia did not even have the influence over Pima's affairs that would arise from a binding written contract to purchase, yet Congress apparently felt that the influence arising from a binding written contract to purchase would not be sufficient to provide grandfather rights without special statutory language. Furthermore, as noted above, the evidence of record does not provide substantial evidence that sale considerations provided Patagonia with substantial influence over Pima's affairs.

Throughout this proceeding, Patagonia has repeatedly argued that the Board and Board counsel have misconstrued the definition of the power to exercise a controlling influence. In this regard, Patagonia has placed great weight upon the *Chicago Corporation* case and other cases which speak in terms of a latent power being sufficient to establish a controlling influence.

While there should be a difference in the definitions of the term because of the differing purposes of the statutes and the fact that the Investment Company Act and the Public Utility Company Act start from the position of a presumption of control, any such difference would not affect the Board's determination in this case. Those cases, particularly those such as the *Chicago Corporation* case referred to above, which speak in terms of a latent power to exercise a controlling influence as being sufficient, have been carefully examined. In those cases there was either no other party clearly in control or there was evidence of an actual exercise of control on certain occasions. This is to be expected, since it is difficult to determine, absent a presumption, that a power exists without demonstrating its exercise. For instance, in the *Chicago Corporation* case, while speaking in terms of a latent power, the Securities and Exchange Commission pointed out that majority control in a third party had not been clearly established. It went on to say, however, that even assuming a united group, "Chicago has, in actuality been able to exercise a material and dominant influence in the corporation."[99] An analysis of these cases shows that in all of them there were facts from which an inference of controlling influence could be drawn which were stronger than the facts established by the record in this case.

The context of this case is one in which actual majority control was cemented in a voting trust for the very purpose of preventing a third party from gaining control. Under such circumstances, the evidence of the power to exercise a controlling influence must be clear to establish its existence and overcome the contrary inference. However, even viewing the evidence as a whole, with respect to the question whether Patagonia can be considered to have engaged in the savings and loan business through Pima on June 30, 1968 in a light most favorable to Patagonia Corporation, the

Board believes that the most that can be stated is that the record provides support for inconsistent inferences. Patagonia had the burden in this proceeding of providing substantial evidence upon which a Board finding of a controlling influence could be based.[100] Patagonia has failed to carry that burden. As stated by the Court of Appeals:

> The most that could be said in petitioner's favor would be that two equally probable, but inconsistent inferences could be drawn from the entire evidence. In such circumstances a finding against the party upon whom rests the necessity of sustaining one of these inferences is clearly correct. *Koppers United Co.* v. *S.E.C.*, 138 F.2d 577, 581 1943).

On the basis of the record in this matter, the Board concludes that:

(1) Patagonia Corporation ("Patagonia"), Tucson, Arizona, a registered one-bank holding company and a "company covered in 1970" did not, directly or indirectly, exercise, or have the power to exercise, a controlling influence over Pima Savings and Loan Association ("Pima"), Tucson, Arizona, on June 30, 1968; and therefore,

(2) Pima was not a "subsidiary" of Patagonia on June 30, 1968, as that term is defined in the Bank Holding Company Act (12 U.S.C. § 1841(d)); and consequently,

(3) Patagonia was not engaged, either directly *or through a subsidiary*, in the activities of a savings and loan association on June 30, 1968 and is not entitled to indefinite grandfather privileges with respect to the additional shares of Pima Savings and Loan Association that it acquired after June 30, 1968.

Patagonia has also requested, pursuant to § 263.14 of the Board's Rules of Practice for Formal Hearings, that it be granted an opportunity for oral argument before the Board. That section provides that at the request of any party the Board "in its discretion may order the matter to be set down for oral argument before the Board or one or more members thereof." The matter has been exhaustively argued and briefed before the hearing officer. Additionally, Patagonia has had an opportunity to submit exceptions to the hearing officer's decision and the Board has taken these exceptions into account. In view of the numerous opportunities Patagonia has had to state and argue its position in this case, the Board believes that oral argument in this matter is not necessary or appropriate.

By order of the Board of Governors, effective February 24, 1977.

Voting for this action: Chairman Burns and Governors Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

(Signed) GRIFFITH L. GARWOOD,
[SEAL] *Deputy Secretary of the Board.*

FOOTNOTES

Citations are abbreviated as follows:

A. Citations to the hearing transcript indicate the name of the witness and the appropriate transcript pages, e.g. Sakrison, Tr. 208.

B. Citations to Exhibits introduced at the hearing by the Board and by Patagonia are "BX" and "PX," respectively.

C. Citations to the Recommended Decision Findings of Fact are cited "RD, FF" and the appropriate numbered paragraph, e.g. "RD, FF 19."

Citations

[1] The Ninth Circuit Court of Appeals in its decision remanding the case to the Board for further proceedings specifically reserved for the Board's consideration the meaning of the phrase "controlling influence."

[2] PX 1, p. 23, BX 2A, pp R41, R43, R48; BX 2B, p. R252

[3] BX 12

[4] BX 2A, p. 41, Sakrison, Tr 173 174, 212, Rich, Tr 42.

[5] Sakrison, Tr. 212; BX 12

[6] BX 12, 13

[7] BX 12, 13, 14.

[8] BX 2A, p. R54; Herman, Tr. 371-372.

[9] BX 16; BX 35; Herman, Tr 398; Sakrison, Tr 398.

[10] BX 35, Sakrison, Tr. 398

[11] BX 2A, p. R42.

[12] Sakrison, Tr 213.

[13] Sakrison, Tr 224-225

[14] RD FF 66-71

[15] RD FF 72; BX 10

[16] BX 39, PX 1, p. 41; Williams, Tr. 136.

[17] Sakrison, Tr 247.

[18] BX 28D; BX 53, p 19 1a

[19] RD FF 80; Sakrison, Tr. 190; BX 53, p 191; BX 28D.

[20] BX 28D.

[21] BX 28D.

[22] BX 73A, pp. 1023-1024.

[23] RD FF 4 and 5

[24] RD FF 3; Rich Tr. 28.

[25] BX 2B, p. 252.

[26] RD FF 114, 140-146.

[27] *Investors Mutual, Inc. et al* CCH Fed. Sec Law Rep. ¶ 77,348 (1966); *The Chicago Corporation* 28 SEC 463 (1948); *M.A. Hanna Company* 10 SEC 581 (1941); *Bessemer Securities Company* 13 SEC 281 (1943); *American Gas & Electric Co* v *S.E.C* 134 F.2d 633; *Detroit Edison Co.* v *S.E.C* 119 F.2d 730.

[28] As more fully set forth in the summary and conclusion, any such difference in tests would not affect the result reached by the Board in this case.

[29] Senate Report 91 1084 p 24.

[29a] 115 Cong. Rec. 33141, 91st Cong (1st Sess.).

[30] BX 2A, p. R57; RD FF 155(a).

[31] Sakrison, Tr. 208, 217, 308.

[32] RD FF 155(b); BX 73B pp. 114, 1151. It appears that Mr. Rich's suggestion was accepted by Pima's Board of Directors because of its individual merit, not because of the exercise of a controlling influence over the management or policies of Pima.

[33] RD FF 157, Herman Tr. 382-384; BX 2A, pp. R57-R58.

[34] RD FF 158; Sakrison Tr. 219, 311.

[35] RD Attachments A and B, FF 166, 167.

[36] Herman, Tr 383, 389.

[37] Herman, Tr. 383.

[38] RD FF 169-171.

[39] BX 73 B p. 1073.

[40] BX 73 B p. 1089 1091. As with Mr. Rich's suggestions concerning the deferral of action on a loan, the record supports a finding that the salary committee was formed because of the merit of the suggestion, not because of the exercise of a controlling influence.

[41] Sakrison, Tr. 180-181, 223-226, 228, 275, 284, 306; Rich, Tr. 42, 66, 73, 89, 93; Herman, Tr. 385-386, 393.

[42] Sakrison, Tr. 306, 307.

[43] Storek, Tr. 456; Sakrison, Tr 188; BX 12, 13, 14

[44] BX 36, 39; PX 1, p. R1; Williams, Tr. 136.

[45] Sakrison, Tr. 190; BX 53, p. 19.1; BX 28D

[46] BX 28D

[47] Sakrison, Tr. 224-225, 282. Voting power in an Arizona stock S&L is shared by all members of the association consisting of (a) each person with a savings account having one vote for each $100 in the account, (b) each person with an outstanding loan having one vote, and (c) each stockholder having one vote for each share owned.

[48] BX 73A, 73B, 73C

[49] Storek, Tr. 443 444; Williams, Tr. 152

[50] BX 2A pp. R44, R69

[51] RD FF 59.

[52] Sakrison, Tr 198, 256-257; Rich, Tr. 47, 62 63.

[53] BX 41

[54] Judge La Macchia: Did the prospect of sale to Patagonia following the sale of the Hall block, per se, influence your judgment as president of Pima?

Sakrison: No, I don't believe it did.

(Sakrison, Tr. 309.)

[55] *The Chicago Corporation; M. A. Hanna; American Gas & Electric; Detroit Edison Co.* (fn. 27 *supra*).

[56] "Gaining control by going around to individual stockholders and getting their stock, buying their stock and leaving me out, could have been accomplished. I would have been sitting with my stock and they would have had the majority of the stock." (Sakrison, Tr. 302.)

[57] Sakrison, Tr. 276.

[58] Sakrison, Tr 227.

[58a] The Board rejects Patagonia's qualitative argument. A director's duty is, after all, to make meritorious suggestions. To establish a controlling influence, something more must be shown than the limited number of instances in this record in which suggestions with merit were accepted. As the Recommended Decision finds at page 79, the record supports the conclusion that the information and advice given depended on merit to persuade. If accepted by Pima's Board they were accepted because they were good ideas, not because of the source of the suggestion.

[58b] RD, Discussion p. 79.

[59] Sakrison, Tr. 309.

[60] BX 28C, BX 28D.

[61] BX 28D.

[62] Sakrison, Tr. 302.

[63] BX 28C, BX 28D.

[64] Sakrison, Tr. 276, 306, 307.

[65] Sakrison, Tr. 276, 277.

[66] Sakrison, Tr. 276, 277.

[67] Sakrison, Tr. 307, 308.

[68] BX 73A, 73B, 73C.

[69] Sakrison, Tr. 196, 292.

[70] Rich, Tr. 125; Sakrison, Tr. 196-197.

[71] RD FF 108.

[72] BX 70

[73] BX 8, p. 3; Rich, Tr. 56.

[74] PX 5.

[75] PX 5.

[76] PX 5.

[77] BX 55 p. 7, 8.

[78] BX 33.

[79] BX 55.

[80] BX 28P; RD FF 129.

[81] Herman, Tr. 385-386, 393; Rich, Tr. 42, 66, 73, 89, 93; Sakrison, Tr. 180, 275, 306; PX 3.

[82] Sakrison, Tr. 208, 209.

[83] BX 28C.

[84] Sakrison, Tr. 302.

[85] Sakrison, Tr. 193.

[86] Sakrison, Tr. 244, 245.

[87] Sakrison, Tr. 274.

[88] Sakrison, Tr. 274.

[89] Sakrison, Tr. 276.

[90] Sakrison, Tr. 277.

[91] Sakrison, Tr. 298.

[92] Sakrison, Tr. 298.

[93] Sakrison, Tr. 299

[94] Sakrison, Tr. 306.

[95] Sakrison, Tr. 306.

[96] Sakrison, Tr. 307.

[97] Sakrison, Tr. 309.

[98] *Senate Report 91 1084 p. 4.*

[99] *The Chicago Corporation,* 28 S.E.C 463, 468.

[100] This is in accord with section 556(d) of the Administrative Procedure Act, which provides that in formal hearings the proponent of an order has the burden of proof.

ORDER UNDER SECTION 2 OF BANK HOLDING COMPANY ACT

Equimark Corporation, Pittsburgh, Pennsylvania

Order Granting Determination under the Bank Holding Company Act

Equimark Corporation, Pittsburgh, Pennsylvania ("Equimark"), which has transferred all of its stock holdings, in Lombard-Wall Incorporated ("Lombard"), dealer in short-term instruments and Federal Government securities, to H-K Enterprises, Inc., New York, New York ("H-K"), has requested a determination, pursuant to the provisions of section 2(g)(3) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1841(g)(3)) ("the Act"), that Equimark is not in fact capable of controlling H-K, notwithstanding the fact that a portion of the purchase price was paid by H-K in the form of a note, said note being secured by a pledge of 19.9 per cent of the shares sold.

Under the provisions of § 2(g)(3) of the Act, shares transferred after January 1, 1966, by any bank holding company to a transferee that is indebted to the transferor or has one or more officers, directors, trustees, or beneficiaries in common with or subject to control by the transferor, are deemed to be indirectly owned or controlled by the transferor unless the Board, after opportunity for hearing, determines that the transferor is not in fact capable of controlling the transferee.

Notice of an opportunity for hearing with respect to Equimark's request for a determination under § 2(g)(3) was published in the *Federal Register* on July 29, 1976 (41 *Federal Register* 31618). The time provided for requesting a hearing expired on August 23, 1976. No such request has been received by the Board, nor has any evidence been received to show that Equimark is in fact capable of controlling H-K.

The aggregate amount of debt owed by H-K to Equimark does not constitute a significant portion of the debt or assets of H-K or Lombard, and the number of shares pledged is less than 20 per cent. H-K is a closely-held corporation which was formed for the purpose of purchasing Lombard, and none of its shareholders is related to Equimark. There are no common directors or officers between Equimark and H-K, and there are only minimal transactions between Equimark and Lombard, conducted in the ordinary course of business. It appears that the sale of Lombard was negotiated at arm's length. The terms of the Pledge Agreement give Equimark no right to vote, transfer or sell the shares of Lombard during the term of the indebtedness unless H-K should default on the indebtedness. Equimark's Board of Directors adopted a resolution to the effect that Equimark does not, and will not attempt to, exercise a controlling influence over H-K and that Equimark will immediately notify the Board should it exercise its right to vote, transfer or sell the shares of Lombard in the event of a default. The boards of directors of H-K and Lombard have adopted resolutions to the effect that they are not and will not be controlled by Equimark. H-K's principal shareholder has made an affidavit that he is not subject to Equimark's control.

Based on these and other facts of record, it is hereby determined that Equimark is not in fact capable of controlling H-K.

Accordingly it is ordered, that the request of Equimark for a determination pursuant to § 2(g)(3) be and hereby is granted. Any material change in the facts or circumstances relied upon in making this determination or any material breach of any of the commitments upon which the decision is based could result in reconsideration of the determination made herein.

By order of the Board of Governors, acting through its General Counsel, pursuant to delegated authority (12 CFR § 265.2 (b)(1)), effective February 4, 1977.

(Signed) GRIFFITH L. GARWOOD,

[SEAL] *Deputy Secretary of the Board.*

ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT

BY THE BOARD OF GOVERNORS

During February 1977, the Board of Governors approved the applications listed below. The orders have been published in the Federal Register, and copies are available upon request to Publications Services, Division of Administration Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant	*Bank(s)*	*Board action (effective date)*	*Federal Register citation*
First Bancshares, Inc., Kansas City, Missouri	First State Bank of Kansas City, Kansas, Kansas City, Kansas	2/18/77	42 F.R. 11280 2/28/77
First International Bancshares, Inc., Dallas, Texas	Beaumont State Bank, Beaumont, Texas	2/28/77	42 F.R. 12923 3/7/77

Section 3—Continued

Applicant	*Bank(s)*	*Board action (effective date)*	*Federal Register citation*
Peoples Bancshares of Schuyler County, Lancaster, Missouri	Bank of Lancaster, Lancaster, Missouri	2/11/77	42 F.R. 10045 2/18/77
Quivira Banc Shares, Inc., Hutchinson, Kansas	The First State Bank of Sterling, Sterling, Kansas	2/9/77	42 F.R. 9435 2/16/77
Ramapo Financial Corporation, Wayne Township, New Jersey	The Ramapo Bank, Wayne Township, New Jersey	2/28/77	42 F.R. 12924 3/7/77
TIC Inc., Kansas City, Kansas	Tower State Bank, Kansas City, Kansas	2/18/77	42 F.R. 11281 2/28/77
Westland Banks, Inc., Lakewood, Colorado	Westland Bank of Lakewood, Lakewood, Colorado; and	2/11/77	42 F.R. 10045 2/18/77
	Westland National Bank, South, Longmont, Colorado	2/11/77	42 F.R. 10046 2/18/77

Section 4

Applicant	*Nonbanking company (or activity)*	*Board action (effective date)*	*Federal Register citation*
Citizens and Southern National Bank and Citizens and Southern Holding Company, Atlanta, Georgia	Ison Finance Corporation, Atlanta, Georgia	2/24/77	42 F.R. 12235 3/3/77
Security Bancorp, Inc., Southgate, Michigan	United Bankers Life Insurance Company, Phoenix, Arizona	2/2/77	42 F.R. 8214 2/9/77

By Federal Reserve Banks

During February 1977, applications were approved by the Federal Reserve Banks as listed below. The orders have been published in the Federal Register, and copies are available upon request to the Reserve Banks.

Section 3

Applicant	Bank(s)	Reserve Bank	Effective date	Federal Register citation
T.N.B. Financial Corporation, Springfield, Massachusetts	The First National Bank of Athol, Athol, Massachusetts	Boston	2/2/77	42 F.R. 8708 2/11/77
Fort Sam Houston Bankshares, Inc., San Antonio, Texas	Northern Hills Bank of San Antonio, Texas	Dallas	2/2/77	42 F.R. 8708 2/11/77

PENDING CASES INVOLVING THE BOARD OF GOVERNORS*

Farmers State Bank of Crosby v. *Board of Governors*, filed January 1977, U.S.C.A. for the Eighth Circuit.

National Automobile Dealers Association, Inc. v. *Board of Governors*, filed November 1976, U.S.C.A. for the District of Columbia.

Michigan National Corporation v. *Board of Governors*, filed September 1976, U.S.C.A. for the Sixth Circuit.

First Security Corporation v. *Board of Governors*, filed August 1976, U.S.C.A. for the Tenth Circuit.

First State Bank of Clute, Texas, et al. v. *Board of Governors*, filed July 1976, U.S.C.A. for the Fifth Circuit.

North Lawndale Economic Development Corporation v. *Board of Governors*, filed June 1976, U.S.C.A. for the Seventh Circuit.

Central Wisconsin Bankshares, Inc. v. *Board of Governors*, filed June 1976, U.S.C.A. for the Seventh Circuit.

National Urban League, et al. v. *Office of the Comptroller of the Currency, et al.*, filed April 1976, U.S.D.C. for the District of Columbia Circuit.

Farmers & Merchants Bank of Las Cruces, New Mexico v. *Board of Governors*, filed April 1976, U.S.C.A. for the District of Columbia Circuit.

Grandview Bank & Trust Company v. *Board of Governors*, filed March 1976, U.S.C.A. for the Eighth Circuit.

Association of Bank Travel Bureaus, Inc. v. *Board of Governors*, filed February 1976, U.S.C.A. for the Seventh Circuit.

Memphis Trust Company v. *Board of Governors*, filed February 1976, U.S.D.C. for the Western District of Tennessee.

First Lincolnwood Corporation v. *Board of Governors*, filed February 1976, U.S.C.A. for the Seventh Circuit.

Roberts Farms, Inc. v. *Comptroller of the Currency, et al.*, filed November 1975, U.S.D.C. for the Southern District of California.

National Computer Analysts, Inc. v. *Decimus Corporation, et al.*, filed November 1975, U.S.D.C. for the District of New Jersey.

Florida Association of Insurance Agents, Inc. v. *Board of Governors*, and *National Association of Insurance Agents, Inc.* v. *Board of Governors*, filed August 1975, actions consolidated in U.S.C.A. for the Fifth Circuit.

†‡*David R. Merrill, et al.* v. *Federal Open Market Committee of the Federal Reserve System*, filed May 1975, U.S.D.C. for the District of Columbia, appeal pending, U.S.D.A. for the District of Columbia.

*This list of pending cases does not include suits against the Federal Reserve Banks in which the Board of Governors is not named a party.

†Decisions have been handed down in these cases, subject to appeals noted.

‡The Board of Governors is not named as a party in this action.

Louis J. Roussel v. *Board of Governors*, filed April 1975, U.S.D.C. for the Eastern District of Louisiana.

Georgia Association of Insurance Agents, et al. v. *Board of Governors*, filed October 1974, U.S.C.A. for the Fifth Circuit.

Alabama Association of Insurance Agents, et al. v. *Board of Governors*, filed July 1974, U.S.C.A. for the Fifth Circuit.

†*Consumers Union of the United States, Inc., et al.* v. *Board of Governors*, filed September 1973, U.S.D.C. for the District of Columbia.

Bankers Trust New York Corporation v. *Board of Governors*, filed May 1973, U.S.C.A. for the Second Circuit.

† Decision has been handed down in this case, subject to appeals noted.

Announcements

FEDERAL AGENCY SECURITIES: Change in rules for purchase

The Federal Open Market Committee has announced a change in its rules for purchase of Federal agency securities to take account of the operations of the Federal Financing Bank.

Under the rule change, effective February 22, 1977, the Federal Reserve will limit its purchases of Federal agency securities to issues of those agencies that are not eligible to borrow funds from the Federal Financing Bank, which began operations in mid-1974. Securities of the Bank itself—none is outstanding at present—may be purchased by the System.

The Federal Financing Bank is authorized to handle financing operations for such agencies as the General Services Administration, U.S. Postal Service, Washington Metropolitan Area Transit Authority, Export-Import Bank, Farmers Home Administration, and the Government National Mortgage Association. The Federal Reserve will no longer purchase securities of such agencies.

Securities of the Government-sponsored agencies—such as the Federal home loan banks, Federal National Mortage Association, Federal land banks, Federal intermediate credit banks, and the banks for cooperatives—will continue to be eligible for System purchase under the new rules.

MONEY STOCK MEASURES: Revision

The money stock and related measures have been revised to incorporate the latest benchmark adjustments for nonmember banks and revised seasonal factors.

Rates of change for recent annual, half-year, and quarterly periods for *M*-1, *M*-2, and *M*-3 derived from quarterly averages are shown in Table 1. Monthly and weekly *M*-1 and *M*-2 seasonal factors for 1977 are shown in Table 2, which appears on page 306.

Only very small adjustments were required to benchmark the money stock (*M*-1 and *M*-2) to the

1. Old and revised money stock growth rates

Annual rates, per cent

Period	*M*-1 Old	*M*-1 Revised	*M*-2 Old	*M*-2 Revised	*M*-3 Old	*M*-3 Revised
Annual						
1975	4.4	4.4	8.3	8.3	11.1	11.1
1976	5.4	5.5	10.9	10.9	12.8	12.8
Half-year						
1976 H1	5.6	5.6	10.4	10.3	11.8	11.8
H2	5.1	5.3	10.8	10.9	13.0	13.1
Quarterly						
1976 Q1	2.7	2.9	9.7	9.9	11.2	11.5
Q2	8.4	8.2	10.8	10.5	12.0	11.8
Q3	4.1	4.2	9.2	9.2	11.6	11.4
Q4	6.0	6.3	12.2	12.3	14.0	14.3

NOTE.—Based on quarterly average data.

June 1976 call report data for domestic nonmember banks. Nonmember bank demand deposits were increased $100 million in June and time deposits were reduced $200 million. Seasonal factor revisions were also quite small and the changes in rates of growth by quarters and half-years were minor.

The current revision also incorporates new seasonal factors for *M*-3. Revised factors for *M*-3 go back to 1959, but the changes had little impact on *M*-3 growth rates.

Monthly and weekly data from 1959 to date are available on request from the Banking Section of the Board's Division of Research and Statistics.

STATEMENT ON DIVESTITURE

The Board of Governors on February 15, 1977, issued a policy statement on divestitures required of bank holding companies.

On a number of recent occasions, the Board has been presented with difficult issues concerning the timing of divestitures required by either law or Board order. As the 1980 deadline for divestiture approaches, the Board expects that the frequency of such problems will increase.

Companies covered by the 1970 amendments to the Bank Holding Company Act have until

2. Money stock seasonal factors—1977

Month, or week		Currency	Demand deposits	Time deposits: Member banks: CD's	Time deposits: Member banks: Other	Time deposits: Nonmember banks
				MONTHLY		
Jan.		.9930	1.0280	1.0010	.9990	.9950
Feb		.9870	.9870	.9690	1.0010	1.0020
Mar		.9920	.9900	.9780	1.0060	1.0090
Apr		.9960	1.0090	.9750	1.0080	1.0080
May		.9975	.9790	.9820	1.0090	1.0070
June		1.0030	.9965	.9850	1.0060	1.0030
July		1.0075	.9990	.9990	1.0010	.9990
Aug		1.0035	.9855	1.0200	.9990	1.0010
Sept.		.9975	.9920	1.0350	.9950	.9980
Oct.		.9975	.9960	1.0300	.9950	.9970
Nov		1.0070	1.0060	1.0100	.9890	.9920
Dec		1.0185	1.0320	1.0160	.9920	.9890
				WEEKLY		
Jan.	5	1.0090	1.0656	1.0090	.9973	.9908
	12	1.0050	1.0484	1.0070	.9980	.9934
	19	.9937	1.0331	1.0040	.9985	.9948
	26	.9799	.9986	.9970	.9995	.9962
Feb	2	.9783	.9978	.9870	1.0000	.9973
	9	.9961	.9930	.9760	.9995	.9998
	16	.9900	.9900	.9690	1.0005	1.0016
	23	.9832	.9761	.9630	1.0020	1.0035
Mar	2	.9808	.9868	.9620	1.0030	1.0054
	9	1.0000	.9905	.9700	1.0045	1.0072
	16	.9960	.9965	.9770	1.0060	1.0088
	23	.9902	.9861	.9830	1.0060	1.0088
	30	.9814	.9847	.9850	1.0085	1.0098
Apr.	6	1.0019	1.0108	.9830	1.0080	1.0106
	13	1.0087	1.0186	.9800	1.0080	1.0090
	20	.9949	1.0206	.9730	1.0080	1.0070
	27	.9822	.9932	.9690	1.0080	1.0062
May	4	.9926	.9913	.9700	1.0080	1.0054
	11	1.0057	.9820	.9730	1.0090	1.0060
	18	.9989	.9815	.9820	1.0085	1.0068
	25	.9921	.9662	.9880	1.0095	1.0074
June	1	.9949	.9806	.9910	1.0085	1.0062
	8	1.0102	.9933	.9900	1.0070	1.0058
	15	1.0077	1.0060	.9850	1.0075	1.0048
	22	1.0009	.9976	.9830	1.0040	1.0010
	29	.9906	.9882	.9830	1.0035	.9998
July	6	1.0169	1.0078	.9860	1.0025	.9998
	13	1.0143	1.0115	.9930	1.0010	.9986
	20	1.0069	.9996	1.0000	1.0005	.9984
	27	.9966	.9822	1.0060	1.0000	.9989
Aug.	3	1.0007	.9931	1.0100	.9995	.9999
	10	1.0165	.9908	1.0130	.9995	1.0018
	17	1.0092	.9915	1.0170	.9990	1.0012
	24	.9999	.9766	1.0250	.9980	1.0010
	31	.9896	.9783	1.0300	.9975	1.0004
Sept.	7	1.0108	.9931	1.0320	.9970	.9993
	14	1.0030	1.0028	1.0330	.9955	.9984
	21	.9947	.9951	1.0350	.9930	.9968
	28	.9829	.9767	1.0390	.9945	.9968
Oct.	5	.9975	.9956	1.0390	.9945	.9976
	12	1.0095	.9963	1.0350	.9965	.9979
	19	.9992	1.0011	1.0310	.9955	.9974
	26	.9904	.9847	1.0270	.9955	.9958
Nov	2	.9893	1.0068	1.0190	.9930	.9934
	9	1.0131	1.0045	1.0100	.9915	.9926
	16	1.0100	1.0125	1.0080	.9895	.9920
	23	1.0092	1.0011	1.0090	.9885	.9914
	30	1.0014	1.0047	1.0110	.9875	.9903
Dec	7	1.0183	1.0201	1.0150	.9885	.9896
	14	1.0195	1.0308	1.0170	.9900	.9894
	21	1.0197	1.0331	1.0170	.9920	.9878
	28	1.0228	1.0305	1.0180	.9940	.9876

December 31, 1980, to divest holdings that are not closely related to banking as defined by the Board, or to divest their banking interests. The Board has no authority to extend this deadline. This provision does not apply to holdings that are grandfathered under the act.

In its statement the Board urged bank holding companies to take early steps to carry out divestiture orders. It also suggested early submission of a divestiture plan and periodic progress reports.

The text of the Board's statement, which was sent to all bank holding companies, is as follows:

From time to time the Board of Governors receives requests from companies subject to the Bank Holding Company Act, or other laws administered by the Board, to extend time periods specified either by statute or by Board order for the divestiture of assets held or activities engaged in by such companies. Such divestiture requirements may arise in a number of ways. For example, divestiture may be ordered by the Board in connection with an acquisition found to have been made in violation of law. In other cases the divestiture may be pursuant to a statutory requirement imposed at the time an amendment to the Act was adopted, or it may be required as a result of a foreclosure upon collateral held by the company or a bank subsidiary in connection with a debt previously contracted in good faith. Certain divestiture periods may be extended in the discretion of the Board, but in other cases the Board may be without statutory authority, or may have only limited authority, to extend a specified divestiture period.

In the past, divestitures have taken many different forms, and the Board has followed a variety of procedures in enforcing divestiture requirements. Because divestitures may occur under widely disparate factual circumstances, and because such forced dispositions may have the potential for causing a serious adverse economic impact upon the divesting company, the Board believes it is important to maintain a large measure of flexibility in dealing with divestitures. For these reasons, there can be no fixed rule as to the type of divestiture that will be appropriate in all situations. For example, when divestiture has been ordered to terminate a control relationship created or maintained in violation of the Act, it may be necessary to impose conditions that will assure that the unlawful relationship has been fully terminated and that it will not arise in the future. In other circumstances, however, less stringent conditions may be appropriate.

1. *Avoidance of Delays in Divestitures.* When a specific time period has been fixed for accomplishing divestiture, the affected company should endeavor and should be encouraged to complete the divestiture as early as possible during the specific period. There will generally be substantial

advantages to divesting companies in taking steps to plan for and accomplish divestitures well before the end of the divestiture period. For example, delays may impair the ability of the company to realize full value for the divested assets, for as the end of the divestiture period approaches the "forced sale" aspect of the divestiture may lead potential buyers to withhold firm offers and to bargain for lower prices. In addition, because some prospective purchasers may themselves require regulatory approval to acquire the divested property, delay by the divesting company may—by leaving insufficient time to obtain such approvals—have the effect of narrowing the range of prospective purchasers. Thus, delay in planning for divestiture may increase the likelihood that the company will seek an extension of the time for divestiture if difficulty is encountered in securing a purchaser, and in certain situations, of course, the Board may be without statutory authority to grant extensions.

2. *Submission and Approval of Divestiture Plans.* When a divestiture requirement is imposed, the company affected should generally be asked to submit a divestiture plan promptly for review and approval by the Reserve Bank or the Board. Such a requirement may be imposed pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act to issue such orders as may be necessary to enable the Board to administer and carry out the purposes of the Act and prevent evasions thereof. A divestiture plan should be as specific as possible, and should indicate the manner in which divestiture will be accomplished—for example, by a bulk sale of the assets to a third party, by "spin-off" or distribution of shares to the shareholders of the divesting company, or by termination of prohibited activities. In addition, the plan should specify the steps the company expects to take in effecting the divestiture and assuring its completeness, and should indicate the time schedule for taking such steps. In appropriate circumstances, the divestiture plan should make provision for assuring that "controlling influence" relationships, such as management or financial interlocks, will not continue to exist.

3. *Periodic Progress Reports.* A company subject to a divestiture requirement should generally be required to submit regular periodic reports detailing the steps it has taken to effect divestiture. Such a requirement may be imposed pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act, referred to above, as well as its authority under section 5(c) of the Act to require reports for the purpose of keeping the Board informed as to whether the Act and Board regulations and orders thereunder are being complied with. Reports should set forth in detail such matters as the identities of potential buyers who have been approached by the company, the dates of discussions with potential buyers and the identities of the individuals involved in such discussions, the terms of any offers received, and the reasons for rejecting any offers. In addition, the reports should indicate whether the company has employed brokers, investment bankers, or others to assist in the divestiture, or its reasons for not doing so, and should describe other efforts by the company to seek out possible purchasers. The purpose of requiring such reports is to insure that substantial and good faith efforts are being made by the company to satisfy its divestiture obligations. The frequency of such reports may vary depending upon the nature of the divestiture and the period specified for divestiture. However, such reports should generally not be required less frequently than every 3 months, and may in appropriate cases be required on a monthly or even more frequent basis. Progress reports as well as divestiture plans should be afforded confidential treatment.

4. *Extensions of Divestiture Periods.* Certain divestiture periods—such as the December 31, 1980, deadline for divestitures required by the 1970 amendments to the Bank Holding Company Act—are not extendable. In such cases, it is imperative that divestiture be accomplished in a timely manner. In certain other cases, the Board may have discretion to extend a statutorily prescribed divestiture period within specified limits. For example, under section 4(c)(2) of the Act the Board may extend for three 1-year periods the 2-year period in which a bank subsidiary of a holding company is otherwise required to divest shares acquired in satisfaction of a debt previously contracted in good faith. In such cases, however, when the permissible extensions expire the Board no longer has discretion to grant further extensions. In still other cases, when a divestiture period is prescribed by the Board, in the exercise of its regulatory judgment, the Board may have broader discretion to grant extensions.

When extensions of specified divestiture periods are permitted by law, extensions should not be granted except under compelling circumstances. Neither unfavorable market conditions nor the possibility that the company may incur some loss should alone be viewed as constituting such circumstances—particularly if the company has failed to take earlier steps to accomplish a divestiture under more favorable circumstances. Normally, a request for an extension will not be considered unless the company has established that it has made substantial and continued good faith efforts to accomplish the divestiture within the prescribed period. Furthermore, requests for extensions of divestiture periods must be made sufficiently in advance of the expiration of the prescribed period both to enable the Board to consider the request in an orderly manner and to enable the company to effect a timely divestiture in the event the request for extension is denied. Companies subject to divestiture requirements should be aware that a failure to accomplish a divestiture within the prescribed period may in and of itself be viewed as a separate violation of the Act.

5. *Use of Trustees.* In appropriate cases a company subject to a divestiture requirement may be required to place the assets subject to divestiture with an independent trustee under instructions to accomplish a sale by a specified date, by public auction if necessary. Such a trustee may be given the responsibility for exercising the voting rights with respect to shares being divested. The use of such a trustee may be particularly appropriate when the divestiture is intended to terminate a control relationship established or maintained in violation of law, or when the divesting company has demonstrated an inability or unwillingness to take timely steps to effect a divestiture.

6. *Presumptions of Control.* Bank holding companies contemplating a divestiture should be mindful of section 2(g)(3) of the Bank Holding Company Act, which creates a presumption of continued control over the transferred assets when the transferee is indebted to the transferor, or when certain interlocks exist, as well as section 225.2 of Regulation Y, which sets forth certain additional control presumptions. When one of these presumptions has arisen with respect to divested assets, the divestiture will not be considered as complete until the presumption has been overcome. It should be understood that the inquiry into the termination of control relationships is not limited by the statutory and regulatory presumptions of control, and that the Board may conclude that a control relationship still exists even though the presumptions do not apply.

7. *Role of the Reserve Banks.* The Reserve Banks have a responsibility for supervising and enforcing divestitures. Specifically, in coordination with Board staff they should review divestiture plans to assure that proposed divestitures will result in the termination of control relationships and will not create unsafe or unsound conditions in any bank or bank holding company; they should monitor periodic progress reports to assure that timely steps are being taken to effect divestitures; and they should prompt companies to take such steps when it appears that progress is not being made. When Reserve Banks have delegated authority to extend divestiture periods, that authority should be exercised consistently with this policy statement.

SYSTEM MEMBERSHIP:
Admission of State Banks

The following State banks were admitted to membership in the Federal Reserve System during the period between February 16, and March 15, 1977:

New Hampshire

Bristol .... The Bristol Bank

Virginia

Danville .... Peoples Bank of Danville

Norfolk .... Heritage Bank and Trust

Industrial Production

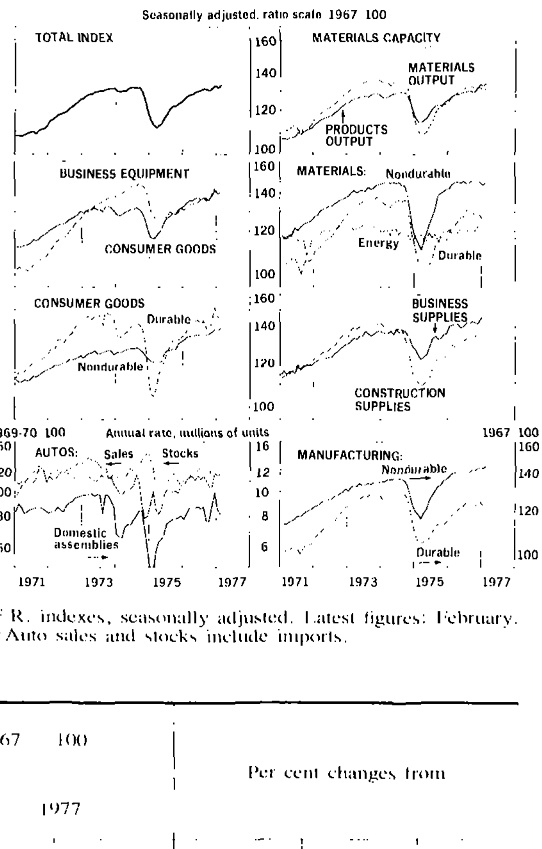
Released for publication March 15

Industrial production rebounded in February from the weather-related decline in January. At an estimated 133.2 per cent of the 1967 average, the February index was up 1.0 per cent from a month earlier. Further weather-related production losses early in the month were more than offset later by sizable gains in output in many industries. The factory workweek in February lengthened considerably from the average in January, and the warmer weather put less pressure on fuel supplies available to industry.

Newly available data have resulted in an upward revision in earlier estimates of January industrial production, and a decline of 0.8 per cent from December is now indicated rather than the 1.0 per cent decline estimated earlier. Small upward revisions were made in the index for December and November as well, and output is estimated to have increased 0.9 per cent and 1.1 per cent, respectively.

Over-all output of consumer goods increased moderately in February, as a 3.5 per cent drop in auto assemblies to an annual rate of 8.2 million units resulted in a small decline in the output of consumer durable goods. Output of other consumer goods rose sharply. The production of business equipment advanced an estimated 1.0 per cent to a level 8.0 per cent above a year earlier and almost 14 per cent above the March 1975 low.

Output of materials, for both durable goods and nondurable goods, rose 1.2 per cent in February, but on balance the increases were not so large as the declines in January.



F.R. indexes, seasonally adjusted. Latest figures: February.
*Auto sales and stocks include imports.

Industrial production	Seasonally adjusted, 1967 = 100				Per cent changes from		
	1976		1977				
	Nov.	Dec.	Jan.[p]	Feb.[e]	Month ago	Year ago	Q3 to Q4
Total	**131.8**	**133.0**	**131.9**	**133.2**	**1.0**	**4.6**	**.6**
Products, total	131.7	133.8	133.0	134.1	8	5.3	1.4
Final products	129.8	132.3	130.9	131.9	8	5.3	1.6
Consumer goods	139.1	142.1	140.2	140.9	.5	4.4	1.9
Durable goods	143.8	151.4	146.0	145.4	.4	5.4	2.5
Nondurable goods	137.1	138.4	137.8	139.0	.9	3.8	1.6
Business equipment	140.2	143.4	141.8	143.2	1.0	8.0	1.7
Intermediate products	138.8	139.7	140.6	142.0	1.0	5.0	.7
Construction supplies	135.7	135.6	135.0	136.4	1.0	5.2	1.0
Materials	131.9	132.1	130.2	131.7	1.2	3.5	.5

[p]Preliminary. [e]Estimated.

Financial and Business Statistics

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FEDERAL FINANCE

1.10 MONETARY AGGREGATES AND INTEREST RATES

	Item	1976 Q1	1976 Q2	1976 Q3	1976 Q4	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.
		Monetary and credit aggregates (annual rates of change, seasonally adjusted in per cent)[12]							
	Member bank reserves								
1	Total	3.7	0.6	2.7	4.4	11.8	4.9	10.9	....
2	Required	3.4	1.1	2.4	4.0	10.5	4.3	11.3	....
3	Nonborrowed	3.0	0.4	2.6	4.8	12.6	5.6	10.4	....
	Concepts of money [1]								
4	*M*-1	2.9	8.2	4.2	6.3	0.0	8.1	5.4	....
5	*M*-2	9.9	10.5	9.2	12.3	10.1	12.6	9.2	....
6	*M*-3	11.5	11.8	11.4	14.3	12.3	13.0	11.2	....
	Time and savings deposits								
	Commercial banks:								
7	Total	7.1	5.4	7.3	11.8	15.3	16.1	10.0	....
8	Other than large CD's	15.3	12.4	13.0	16.8	17.6	15.6	12.4	....
9	Thrift institutions[2]	14.2	13.7	14.8	17.3	15.6	13.7	13.5	....
10	Total loans and investments at commercial banks[3]	3.8	5.4	6.0	8.7	9.4	2.0	9.0	....
		Interest rates (levels, per cent per annum)							
	Short-term rates								
11	Federal funds[4]	4.83	5.19	5.28	4.88	4.95	4.65	4.61	4.68
12	Treasury bills (3-month market yield)[5]	4.92	5.16	5.15	4.67	4.75	4.35	4.62	4.67
13	Commercial paper (90- to 119-day)[6]	5.18	5.45	5.41	4.91	4.98	4.66	4.7[illegible]	4.76
14	Federal Reserve discount[7]	5.59	5.50	5.50	5.39	5.43	5.25	5.25	5.25
	Long-term rates								
	Bonds:								
15	U.S. Govt.[8]	8.00	8.01	7.90	7.54	7.64	7.30	7.48	7.64
16	Aaa utility (new issue)[9]	8.65	8.69	8.48	8.15	8.17	7.94	8.08	8.22
17	State and local government[10]	6.98	6.78	6.64	6.18	6.29	5.94	5.87	5.89
18	Conventional mortgages[11]	9.00	8.98	9.03	8.95	8.95	8.90	8.80	....

1 *M*-1 equals currency plus private demand deposits adjusted.
M-2 equals *M*-1 plus bank time and savings deposits other than large CD's.
M-3 equals *M*-2 plus deposits at mutual savings banks, savings and loan associations, and credit union shares.
2 Savings and loan associations, mutual savings banks, and credit unions.
3 Quarterly changes calculated from figures shown in Table 1.23.
4 Seven-day averages of daily effective rates (average of the rates on a given date weighted by the volume of transactions at those rates).
5 Quoted on a bank-discount rate basis.
6 Most representative offering rate quoted by five dealers.
7 Rate for the Federal Reserve Bank of New York.
8 Market yields adjusted to a 20-year maturity by the U.S. Treasury.
9 Weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis. Federal Reserve compilations.
10 *Bond Buyer* series for 20 issues of mixed quality.
11 Average rates on new commitments for conventional first mortgages on new homes in primary markets, unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development.
12 Unless otherwise noted, rates of change are calculated from average amounts outstanding in preceding month or quarter.

NOTE.—Data in this series have been revised; for further details see "Announcements", page 305.

1.11 FACTORS AFFECTING MEMBER BANK RESERVES

Millions of dollars

Factor	Monthly averages of daily figures							End-of-month figures		
	1976					1977		1976	1977	
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.p	Dec.	Jan.	Feb.p
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit outstanding**	**105,393**	**105,880**	**107,270**	**106,522**	**107,632**	**108,700**	**109,065**	**110,892**	**107,253**	**108,285**
2 *U.S. Govt. securities*[1]	*91,583*	*91,966*	*93,535*	*92,659*	*93,412*	*94,513*	*95,843*	*97,021*	*94,134*	*95,837*
3 Bought outright	89,259	89,926	91,886	91,527	91,031	92,905	94,674	93,268	94,134	94,905
4 Held under repurchase agreement	2,324	2,040	1,649	1,132	2,381	1,608	1,169	3,753	....	932
5 *Federal agency securities*	*6,875*	*6,831*	*6,839*	*6,848*	*6,916*	*6,884*	*6,846*	*7,072*	*6,790*	*6,844*
6 Bought outright	6,799	6,763	6,757	6,804	6,805	6,792	6,787	6,794	6,790	6,767
7 Held under repurchase agreement	76	68	82	44	111	92	59	278	....	77
8 Acceptances	580	447	323	326	457	413	330	991	191	322
9 Loans	104	75	66	84	62	61	79	25	47	24
10 Float	2,512	2,880	2,763	3,094	3,536	3,514	2,943	2,601	2,482	2,467
11 Other Federal Reserve assets	3,739	3,681	3,744	3,511	3,249	3,315	3,024	3,182	3,609	2,791
12 Gold stock	11,598	11,598	11,598	11,598	11,598	11,638	11,658	11,598	11,658	11,651
13 Special Drawing Rights certificate account	700	703	1,123	1,200	1,200	1,200	1,200	1,200	1,200	1,200
14 Treasury currency outstanding	10,690	10,737	10,778	10,826	10,865	10,897	10,930	10,810	10,865	10,939
ABSORBING RESERVE FUNDS										
15 Currency in circulation	89,548	89,863	90,312	91,988	93,730	92,582	91,753	93,717	91,164	91,745
16 Treasury cash holdings	454	442	482	458	464	461	499	460	502	514
Deposits, other than member bank reserves with F.R. Banks:										
17 Treasury	7,797	8,270	9,199	6,709	6,138	7,850	10,698	10,393	11,397	12,179
18 Foreign	275	249	266	259	306	269	294	352	383	362
19 Other	979	1,071	1,012	947	974	820	616	1,357	642	856
20 Other F.R. liabilities and capital	3,326	3,315	3,372	3,326	3,253	3,223	3,224	3,063	3,475	3,630
21 Member bank reserves with F.R. Banks	26,001	25,708	26,127	26,458	26,430	27,229	25,769	25,158	23,411	22,788

	Weekly averages of daily figures for weeks ending—					Wednesday figures				
	1977					1977				
	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23p	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23p
SUPPLYING RESERVE FUNDS										
22 **Reserve Bank credit outstanding**	**108,632**	**109,597**	**109,203**	**107,829**	**110,045**	**112,098**	**105,738**	**111,898**	**110,804**	**113,453**
23 *U.S. Govt. securities*[1]	*94,900*	*95,322*	*95,274*	*95,069*	*97,445*	*97,409*	*91,401*	*97,656*	*96,633*	*99,371*
24 Bought outright	94,028	93,983	94,788	94,639	95,053	95,049	91,401	95,748	93,624	95,047
25 Held under repurchase agreement	872	1,339	486	430	2,392	2,360	....	1,908	3,009	4,324
26 *Federal agency securities*	*6,854*	*6,852*	*6,828*	*6,806*	*6,890*	*6,989*	*6,790*	*6,911*	*6,901*	*7,033*
27 Bought outright	6,790	6,790	6,790	6,790	6,709	6,790	6,790	6,790	6,790	6,790
28 Held under repurchase agreement	64	62	38	16	100	199	....	121	111	243
29 Acceptances	324	310	299	237	377	461	191	431	513	502
30 Loans	89	86	75	129	37	483	347	81	738	77
31 Float	2,985	3,594	3,285	2,432	2,694	2,740	3,705	3,396	3,498	3,756
32 Other Federal Reserve assets	3,480	3,434	3,443	3,155	2,602	4,016	3,304	3,423	2,521	2,714
33 Gold stock	11,658	11,658	11,658	11,658	11,658	11,658	11,658	11,658	11,658	11,658
34 Special Drawing Rights certificate account	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
35 Treasury currency outstanding	10,900	10,916	10,925	10,931	10,934	10,901	10,919	10,930	10,934	10,935
ABSORBING RESERVE FUNDS										
36 Currency in circulation	91,799	91,303	91,610	91,940	91,809	91,715	91,517	92,095	92,029	92,105
37 Treasury cash holdings	451	481	496	502	501	471	485	501	509	516
Deposits, other than member bank reserves with F.R. Banks:										
38 Treasury	8,630	10,898	11,258	9,302	10,961	10,283	10,980	9,627	10,854	11,778
39 Foreign	228	302	279	314	269	253	256	272	295	222
40 Other	750	641	622	546	538	722	614	759	518	551
41 Other F.R. liabilities and capital	3,301	3,419	3,038	3,175	3,303	3,416	2,949	3,109	3,233	3,438
42 Member bank reserves with F.R. Banks	27,233	26,328	25,684	25,837	26,457	28,997	22,714	29,322	27,158	28,636

1 *Includes* securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

NOTE.—For amounts of currency and coin held as reserves, see Table 1.12.

1.12 RESERVES AND BORROWINGS Member Banks

Millions of dollars

	Reserve classification	1975 Dec.	1976 June	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb. p
		Monthly averages of daily figures									
	All member banks										
	Reserves:										
1	At F.R. Banks	27,215	25,711	25,933	26,001	25,708	26,127	26,458	26,430	27,229	25,769
2	Currency and coin	7,773	7,903	8,064	7,989	8,113	8,025	8,180	8,548	8,913	8,324
3	*Total held*[1]	*34,989*	*33,774*	*34,146*	*34,141*	*33,979*	*34,305*	*34,797*	*35,136*	*36,290*	*34,241*
4	Required	34,727	33,657	34,076	33,844	33,692	34,116	34,433	34,964	35,796	34,232
5	Excess[1]	262	117	70	297	287	189	364	172	494	9
	Borrowings at F.R. Banks:[2]										
6	Total	127	120	123	104	75	66	84	62	61	79
7	Seasonal	13	20	24	28	31	32	21	12	8	12
	Large banks in New York City										
8	*Reserves held*	*6,812*	*6,546*	*6,507*	*6,559*	*6,372*	*6,374*	*6,589*	*6,520*	*7,076*	*6,369*
9	Required	6,748	6,524	6,548	6,501	6,308	6,346	6,485	6,602	6,948	6,537
10	Excess	64	22	-41	58	64	28	104	-82	128	-168
11	Borrowings[2]	63	26	37	28	22	....	36	15	6	47
	Large banks in Chicago										
12	*Reserves held*	*1,740*	*1,767*	*1,672*	*1,684*	*1,615*	*1,648*	*1,621*	*1,632*	*1,731*	*1,573*
13	Required	1,758	1,676	1,690	1,625	1,617	1,635	1,602	1,641	1,698	1,623
14	Excess	-18	91	-18	59	-2	13	19	-9	33	-50
15	Borrowings[2]	....	7	13	6	3	3	....	4	2	....
	Other large banks										
16	*Reserves held*	*13,249*	*12,318*	*12,633*	*12,610*	*12,584*	*12,704*	*12,889*	*13,117*	*13,556*	*12,500*
17	Required	13,160	12,443	12,660	12,549	12,521	12,706	12,802	13,053	13,427	12,763
18	Excess	89	-125	-27	61	63	2	87	64	129	-263
19	Borrowings[2]	26	22	11	20	3	17	7	14	25	4
	All other banks										
20	*Reserves held*	*13,188*	*13,143*	*13,334*	*13,288*	*13,408*	*13,579*	*13,698*	*13,867*	*13,927*	*13,450*
21	Required	13,061	13,014	13,178	13,169	13,246	13,429	13,544	13,668	13,723	13,309
22	Excess	127	129	156	119	162	150	154	199	204	141
23	Borrowings[2]	38	65	62	50	47	46	41	29	28	28

		1976 Dec. 22	1976 Dec. 29	1977 Jan. 5	1977 Jan. 12	1977 Jan. 19	1977 Jan. 26	1977 Feb. 2	1977 Feb. 9	1977 Feb. 16	1977 Feb. 23p
		Weekly averages of daily figures for weeks ending–									
	All member banks										
	Reserves:										
24	At F.R. Banks	26,859	27,043	27,203	26,623	27,452	27,233	26,328	25,684	25,837	26,457
25	Currency and coin	8,136	8,632	8,628	8,984	9,228	8,812	8,797	8,763	8,568	7,602
26	*Total held*[1]	*35,154*	*35,834*	*35,974*	*35,753*	*36,830*	*36,193*	*35,275*	*34,595*	*34,553*	*34,205*
27	Required	35,083	35,486	35,461	35,383	36,941	35,769	35,145	34,339	34,389	33,925
28	Excess[1]	71	348	513	370	-111	424	130	256	164	280
	Borrowings at F.R. Banks:[2]										
29	Total	37	82	31	20	109	89	86	75	129	37
30	Seasonal	11	11	7	8	8	8	11	12	13	11
	Large banks in New York City										
31	*Reserves held*	*6,586*	*6,609*	*6,921*	*6,839*	*7,310*	*7,010*	*6,623*	*6,621*	*6,706*	*6,386*
32	Required	6,569	6,629	6,778	6,800	7,454	6,915	6,663	6,596	6,714	6,391
33	Excess	17	-20	143	39	-144	95	-40	25	-8	-5
34	Borrowings[2]	....	6	....	....	29	....	41	43	98	7
	Large banks in Chicago										
35	*Reserves held*	*1,646*	*1,668*	*1,729*	*1,749*	*1,790*	*1,632*	*1,662*	*1,632*	*1,670*	*1,549*
36	Required	1,630	1,673	1,691	1,713	1,791	1,616	1,666	1,605	1,654	1,621
37	Excess	16	-5	38	36	-1	16	-4	27	16	-72
38	Borrowings[2]	....	....	....	....	9	....	....	....	....	....
	Other large banks										
39	*Reserves held*	*13,096*	*13,507*	*13,377*	*13,396*	*13,728*	*13,542*	*13,119*	*12,857*	*12,765*	*12,356*
40	Required	13,164	13,341	13,304	13,296	13,883	13,385	13,155	12,782	12,809	12,612
41	Excess	-68	166	73	100	-155	157	-36	75	-44	-256
42	Borrowings[2]	10	44	....	2	40	58	19	7	3	....
	All other banks										
43	*Reserves held*	*13,826*	*14,050*	*13,947*	*13,769*	*14,002*	*14,009*	*13,871*	*13,485*	*13,412*	*13,569*
44	Required	13,720	13,843	13,688	13,574	13,813	13,853	13,661	13,356	13,212	13,301
45	Excess	106	207	259	195	189	156	210	129	200	268
46	Borrowings[2]	27	32	31	18	31	31	26	25	28	30

1 Adjusted to include waivers of penalties for reserve deficiencies in accordance with Board policy, effective Nov. 19, 1975, of permitting transitional relief on a graduated basis over a 24-month period when a nonmember bank merges into an existing member bank, or when a nonmember bank joins the Federal Reserve System. For weeks for which figures are preliminary, figures by class of bank do not add to total because adjusted data by class are not available.

2 Based on closing figures.

1.13 FEDERAL FUNDS TRANSACTIONS of Money Market Banks

Millions of dollars, except as noted

	Type	1977, week ending							
		Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
		Total, 46 banks							
	Basic reserve position								
1	Excess reserves[1]	246	312	−90	85	13	73	9	95
	LESS:								
2	Borrowings at F.R. Banks	...	...	63	46	37	46	91	7
3	Net interbank Federal funds transactions	16,621	21,537	20,085	16,443	14,175	18,004	17,687	16,755
	EQUALS: Net surplus, or deficit (−):								
4	Amount	−16,375	−21,225	−20,237	−16,404	−14,199	−17,977	−17,770	−16,666
5	*Per cent of average required reserves*	*105.2*	*135.7*	*120.8*	*104.7*	*92.8*	*119.9*	*116.9*	*113.5*
	Interbank Federal funds transactions								
	Gross transactions:								
6	Purchases	24,929	27,907	25,972	22,582	21,637	24,143	23,795	23,441
7	Sales	8,308	6,371	5,887	6,139	7,462	6,139	6,108	6,686
8	Two-way transactions[2]	6,033	5,627	5,031	4,927	5,564	5,041	4,756	5,200
	Net transactions:								
9	Purchases of net buying banks	18,896	22,280	20,941	17,655	16,073	19,102	19,039	18,241
10	Sales of net selling banks	2,276	744	856	1,213	1,898	1,098	1,352	1,487
	Related transactions with U.S. Govt. securities dealers								
11	Loans to dealers[3]	4,075	4,408	3,721	3,084	3,060	2,541	2,748	2,437
12	Borrowing from dealers[4]	*1,712*	*1,313*	1,426	1,532	*1,864*	*1,513*	1,380	1,775
13	Net loans	2,364	3,095	2,295	1,553	1,196	1,028	1,369	662
		8 banks in New York City							
	Basic reserve position								
14	Excess reserves[1]	141	149	−71	21	−23	−11	−8	29
	LESS:								
15	Borrowings at F.R. Banks	...	...	29	...	37	43	89	7
16	Net interbank Federal funds transactions	6,860	8,891	7,145	5,511	4,233	5,626	6,191	5,611
	EQUALS: Net surplus, or deficit (−):								
17	Amount	6,719	−8,742	−7,244	−5,490	−4,293	−5,680	−6,288	−5,589
18	*Per cent of average required reserves*	*108.8*	*141.1*	*105.9*	*87.2*	*70.9*	*94.5*	*102.6*	*96.4*
	Interbank Federal funds transactions								
	Gross transactions:								
19	Purchases	7,481	9,507	7,801	6,515	5,557	6,623	6,932	6,604
20	Sales	622	617	656	1,004	1,324	997	742	994
21	Two-way transactions[2]	622	617	656	1,004	1,324	997	742	994
	Net transactions:								
22	Purchases of net buying banks	6,860	8,890	7,145	5,511	4,233	5,626	6,191	5,611
23	Sales of net selling banks	...	...	...	...	...	...	...	...
	Related transactions with U.S. Govt. securities dealers								
24	Loans to dealers[3]	2,366	2,316	2,108	1,878	1,671	1,516	1,809	1,602
25	Borrowing from dealers[4]	534	641	691	784	765	680	621	648
26	Net loans	1,832	1,674	1,417	1,093	906	836	1,187	954
		38 banks outside New York City							
	Basic reserve position								
27	Excess reserves[1]	105	163	−19	64	36	84	17	67
	LESS:								
28	Borrowings at F.R. Banks	...	...	34	46	...	3	3	...
29	Net interbank Federal funds transactions	9,761	12,646	12,940	10,932	9,942	12,378	11,496	11,144
	EQUALS: Net surplus, or deficit (−):								
30	Amount	−9,656	−12,483	−12,993	−10,913	−9,905	−12,297	−11,482	−11,077
31	*Per cent of average required reserves*	*102.9*	*132.1*	*131.1*	*116.4*	*107.1*	*136.9*	*126.5*	*124.7*
	Interbank Federal funds transactions								
	Gross transactions:								
32	Purchases	17,448	18,400	18,171	16,067	16,080	17,520	16,862	16,837
33	Sales	7,687	5,754	5,231	5,135	6,138	5,142	5,366	5,693
34	Two-way transactions[2]	5,411	5,010	4,375	3,923	4,240	4,043	4,014	4,207
	Net transactions:								
35	Purchases of net buying banks	12,036	13,390	13,796	12,144	11,840	13,476	12,848	12,630
36	Sales of net selling banks	2,276	744	856	1,213	1,898	1,098	1,352	1,487
	Related transactions with U.S. Govt. securities dealers								
37	Loans to dealers[3]	1,709	2,093	1,613	1,207	1,390	1,025	940	835
38	Borrowing from dealers[4]	1,178	672	735	747	1,100	833	758	1,127
39	Net loans	532	1,421	879	459	290	192	181	−292

For notes see end of table.

1.13 Continued

	Type	Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
		1977, week ending							
		5 banks in City of Chicago							
	Basic reserve position								
40	Excess reserves[1]	38	60	15	23	13	26	42	-5
	LESS:								
41	Borrowings at F.R. Banks	....	....	9	....	....	....	....	....
42	Net interbank Federal funds transactions	5,942	5,769	6,164	5,027	5,506	5,994	5,665	5,742
	EQUALS: Net surplus, or deficit (-):								
43	Amount	-5,904	-5,710	-6,158	-5,004	-5,494	-5,968	-5,623	-5,747
44	*Per cent of average required reserves*	*373.9*	*356.3*	*367.0*	*332.1*	*352.6*	*398.3*	*363.2*	*378.7*
	Interbank Federal funds transactions								
	Gross transactions:								
45	Purchases	6,890	6,681	7,025	5,864	6,280	6,839	6,473	6,784
46	Sales	948	911	862	837	774	844	807	1,042
47	Two-way transactions[2]	902	889	846	837	743	828	807	1,035
	Net transactions:								
48	Purchases of net buying banks	5,988	5,791	6,179	5,027	5,537	6,011	5,665	5,749
49	Sales of net selling banks	46	22	15	....	31	17	....	7
	Related transactions with U.S. Govt. securities dealers								
50	Loans to dealers[3]	331	331	392	299	333	298	254	174
51	Borrowing from dealers[4]	111	304	190	189	257	235	402	488
52	Net loans	220	27	202	110	75	62	-148	-314
		33 other banks							
	Basic reserve position								
53	Excess reserves[1]	68	103	34	41	24	58	-25	72
	LESS:								
54	Borrowings at F.R. Banks	....	....	25	46	....	3	3	....
55	Net interbank Federal funds transactions	3,820	6,877	6,776	5,905	4,436	6,384	5,831	5,402
	EQUALS: Net surplus, or deficit (-):								
56	Amount	-3,752	-6,774	-6,835	-5,910	-4,412	-6,329	-5,859	-5,330
57	*Per cent of average required reserves*	*48.1*	*86.3*	*83.0*	*75.1*	*57.4*	*84.5*	*77.8*	*72.4*
	Interbank Federal funds transactions								
	Gross transactions:								
58	Purchases	10,558	11,719	11,145	10,203	9,800	10,681	10,390	10,053
59	Sales	6,738	4,843	4,369	4,298	5,364	4,298	4,559	4,651
60	Two-way transactions[2]	4,509	4,121	3,528	3,086	3,497	3,216	3,207	3,172
	Net transactions:								
61	Purchases of net buying banks	6,049	7,599	7,617	7,118	6,303	7,465	7,183	6,881
62	Sales of net selling banks	2,229	722	841	1,213	1,868	1,082	1,352	1,480
	Related transactions with U.S. Govt. securities dealers								
63	Loans to dealers[3]	1,379	1,761	1,221	908	1,057	727	685	661
64	Borrowing from dealers[4]	1,067	368	545	558	842	598	356	639
65	Net loans	312	1,394	676	350	215	130	329	22

1 *Based on reserve balances, including adjustments to include waivers* of penalties for reserve deficiencies in accordance with changes in Board policy effective Nov. 19, 1975.

2 Derived from averages for individual banks for entire week. Figure for each bank indicates extent to which the bank's average purchases and sales are offsetting.

3 Federal funds loaned, net funds supplied to each dealer by clearing banks, repurchase agreements (purchases from dealers subject to resale), or other lending arrangements.

4 *Federal funds borrowed, net funds acquired from each dealer by* clearing banks, reverse repurchase agreements (sales of securities to dealers subject to repurchase), resale agreements, and borrowings secured by U.S. Govt. or other securities.

NOTE.—Weekly averages of daily figures. For description of series, see Federal Reserve BULLETIN for August 1964, pp. 944–53. Back data for 46 banks appear in the Board's *Annual Statistical Digest, 1971–1975*, Table 3.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Per cent per annum

Current and recent levels

Federal Reserve Bank	Loans to member banks									Loans to all others under last par. Sec. 13[4]		
	Under Secs. 13 and 13a[1]			Under Sec. 10(b)[2]								
				Regular rate			Special rate[3]					
	Rate on 2/28/77	Effective date	Previous rate	Rate on 2/28/77	Effective date	Previous rate	Rate on 2/28/77	Effective date[3]	Previous rate	Rate on 2/28/77	Effective date	Previous rate
Boston	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
New York	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Philadelphia	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Cleveland	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Richmond	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Atlanta	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Chicago	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
St. Louis	5¼	11/26/76	5½	5¾	11/26/76	6	6¼	11/26/76	6½	8¼	11/26/76	8½
Minneapolis	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Kansas City	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
Dallas	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½
San Francisco	5¼	11/22/76	5½	5¾	11/22/76	6	6¼	11/22/76	6½	8¼	11/22/76	8½

Range of rates in recent years[5]

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1970	5½	5½	1973—Jan. 15	5	5	1975—Jan. 6	7¼–7¾	7¾
			Feb. 26	5–5½	5½	10	7¼–7¾	7¼
1971 Jan. 8	5¼–5½	5¼	Mar. 2	5½	5½	24	7¼	7¼
15	5¼	5¼	Apr. 23	5½–5¾	5½	Feb. 5	6¾–7¼	6¾
19	5 -5¼	5¼	May 4	5¾	5¾	7	6¾	6¾
22	5 -5¼	5	11	5¾–6	6	Mar. 10	6¼–6¾	6¼
29	5	5	18	6	6	14	6¼	6¼
Feb. 13	4¾–5	5	June 11	6–6½	6½	May 16	6–6¼	6
19	4¾	4¾	15	6½	6½	23	6	6
July 16	4¾–5	5	July 2	7	7			
23	5	5	Aug. 14	7–7½	7½	1976—Jan. 19	5½–6	5½
Nov. 11	4¾–5	5	23	7½	7½	23	5½	5½
19	4¾	4¾						
Dec. 13	4½–4¾	4¾	1974—Apr. 25	7½–8	8	Nov. 22	5¼–5½	5¼
17	4½–4¾	4½	30	8	8	26	5¼	5¼
24	4½	4½	Dec. 9	7¾–8	7¾			
			16	7¾	7¾	In effect Feb. 28, 1977	5¼	5¼

1 Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for F.R. Bank purchase.

2 Advances secured to the satisfaction of the F.R. Bank. Advances secured by mortgages on 1- to 4-family residential property are made at the Section 13 rate.

3 Applicable to special advances described in Section 201.2(e)(2) of Regulation A.

4 Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. Govt. or any agency thereof.

5 Rates under Secs. 13 and 13a (as described above). For description and earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, *Banking and Monetary Statistics, 1941–1970*, and *Annual Statistical Digest, 1971–75*.

1.15 MEMBER BANK RESERVE REQUIREMENTS[1]

Per cent of deposits

Type of deposit, and deposit interval in millions of dollars	Requirements in effect Feb. 28, 1977		Previous requirements	
	Per cent	Effective date	Per cent	Effective date
Net demand:[2]				
0–2	7	12/30/76	7½	2/13/75
2–10	9½	12/30/76	10	2/13/75
10–100	11¾	12/30/76	12	2/13/75
100–400	12¾	12/30/76	13	2/13/75
Over 400	16¼	12/30/76	16½	2/13/75
Time:[2,3]				
Savings	3	3/16/67	3½	3/2/67
Other time:				
0–5, maturing in—				
30–179 days	3	3/16/67	3½	3/2/67
180 days to 4 years	[4] 2½	1/8/76	3	3/16/67
4 years or more	[4] 1	10/30/75	3	3/16/67
Over 5, maturing in—				
30–179 days	6	12/12/74	5	10/1/70
180 days to 4 years	[4] 2½	1/8/76	3	12/12/74
4 years or more	[4] 1	10/30/75	3	12/12/74

	Legal limits, Feb. 28, 1977	
	Minimum	Maximum
Net demand:		
Reserve city banks	10	22
Other banks	7	14
Time	3	10

1 For changes in reserve requirements beginning 1963, see Board's *Annual Statistical Digest, 1971–1975* and for prior changes, see Board's *Annual Report* for 1975, Table 13.

2 (a) Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements are gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

(b) The Federal Reserve Act specifies different ranges of requirements for reserve city banks and for other banks. Reserve cities are designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than $400 million is considered to have the character of business of a reserve city bank. The presence of the head office of such a bank constitutes designation of that place as a reserve city. Cities in which there are F.R. Banks or branches are also reserve cities. Any banks having net demand deposits of $400 million or less are considered to have the character of business of banks outside of reserve cities and are permitted to maintain reserves at ratios set for banks not in reserve cities. For details, see the Board's Regulation D.

(c) Member banks are required under the Board's Regulation M to maintain reserves against foreign branch deposits computed on the basis of net balances due from domestic offices to their foreign branches and against foreign branch loans to U.S. residents. Loans aggregating $100,000 or less to any U.S. resident are excluded from computations, as are total loans of a bank to U.S. residents if not exceeding $1 million. Regulation D imposes a similar reserve requirement on borrowings from foreign banks by domestic offices of a member bank. A reserve of 4 per cent is required for each of these classifications.

3 Negotiable orders of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts are subject to the same requirements as savings deposits.

4 The average of reserves on savings and other time deposits must be at least 3 per cent, the minimum specified by law.

NOTE.—Required reserves must be held in the form of deposits with F.R. Banks or vault cash.

1.16 MAXIMUM INTEREST RATES PAYABLE on Time and Savings Deposits at Federally Insured Institutions

Per cent per annum

Type and maturity of deposit	Commercial banks				Savings and loan associations and mutual savings banks			
	In effect Dec. 31, 1976		Previous maximum		In effect Dec. 31, 1976		Previous maximum	
	Per cent	Effective date	Per cent	Effective date	Per cent	Effective date	Per cent	Effective date
1 Savings	5	7/1/73	4½	1/21/70	5¼	(4)	5	(5)
2 Negotiable order of withdrawal (NOW) accounts[1]	5	1/1/74	....	....	5	1/1/74	....	....
Time (multiple- and single-maturity unless otherwise indicated):[2]								
30–89 days:								
3 Multiple-maturity	5	7/1/73	4½	1/21/70	(6)	....	(6)	....
4 Single-maturity			5	9/26/66				
90 days to 1 year:								
5 Multiple-maturity	5½	7/1/73	5	7/20/66	[3] 5¼	(4)	5¼	1/21/70
6 Single-maturity				9/26/66				
7 1 to 2 years[3]	6	7/1/73	5½	1/21/70	6½	(4)	5¾	1/21/70
8 2 to 2½ years[3]			5¾	1/21/70			6	1/21/70
9 2½ to 4 years	6½	7/1/73	5¾	1/21/70	6¾	(4)	6	1/21/70
10 4 to 6 years	7¼	11/1/73	(7)	....	7½	11/1/73	(7)	....
11 6 years or more	7½	12/23/74	7¼	11/1/73	7¾	12/23/74	7½	11/1/73
12 Governmental units (all maturities)	7¾	12/23/74	7½	11/27/74	7¾	12/23/74	7½	11/27/74

[1] For authorized States only. Federally insured commercial banks, savings and loan associations, cooperative banks, and mutual savings banks were first permitted to offer NOW accounts on Jan. 1, 1974. Authorization to issue NOW accounts was extended to similar institutions throughout New England on Feb. 27, 1976.

[2] For exceptions with respect to certain foreign time deposits see the Federal Reserve BULLETIN for October 1962 (p. 1279), August 1965 (p. 1094), and February 1968 (p. 167).

[3] A minimum of $1,000 is required for savings and loan associations, except in areas where mutual savings banks permit lower minimum denominations. This restriction was removed for deposits maturing in less than 1 year, effective Nov. 1, 1973.

[4] *July 1, 1973, for mutual savings banks; July 6, 1973, for savings and loan associations.*

[5] Oct. 1, 1966, for mutual savings banks; Jan. 21, 1970, for savings and loan associations.

[6] No separate account category.

[7] Between early July 1, 1973, and Oct. 31, 1973, there was no ceiling for certificates maturing in 4 years or more with minimum denominations of $1,000; however, the amount of such certificates that an institution could issue was limited to 5 per cent of its total time and savings deposits. Sales in excess of that amount, as well as certificates of less than $1,000, were limited to the 6½ per cent ceiling on time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, the present ceilings were imposed on certificates maturing in 4 years or more with minimum denominations of $1,000. There is no limitation on the amount of these certificates that banks can issue. In December 1975, the Federal regulatory agencies removed the minimum-denomination requirement on time deposits representing funds contributed to an individual retirement account (IRA) established pursuant to the Internal Revenue Code. Similar action was taken for Keogh (H.R. 10) plans in November 1976.

NOTE—Maximum rates that can be paid by Federally insured commercial banks, *mutual savings banks, and savings and loan associations* are established by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board under the provisions of 12 CFR 217, 329, and 526, respectively. The maximum rates on time deposits in denominations of $100,000 or more were suspended in mid-1973. For information regarding previous interest rate ceilings on all types of accounts, see earlier issues of the Federal Reserve BULLETIN, the Federal Home Loan Bank Board *Journal*, and the *Annual Report* of the Federal Deposit Insurance Corporation.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

	Type of transaction	1974	1975	1976	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
	U.S. GOVT. SECURITIES										
	Outright transactions (excl. matched sale-purchase transactions)										
	Treasury bills:										
1	Gross purchases	11,660	11,562	14,343	279	1,100	1,125	618	346	975	2,535
2	Gross sales	5,830	5,599	8,462	1,413	....	171	....	480	1,546	313
3	Redemptions	4,550	[2]6,431	[2]5,017	875	....	....	200	600	....	....
	Others within 1 year:[1]										
4	Gross purchases	450	3,886	472	....	42	129	....	18	59	45
5	Gross sales	....	....	....	....	....	....	....	....	....	....
6	Exchange, or maturity shift	−1,183	−4	792	59	−1,525	−285	66	1,047	7	252
7	Redemptions	131	3,549	....	....	....	....	....	....	....	....
	1 to 5 years:										
8	Gross purchases	797	[2]3,284	[2]3,202	....	301	580	....	113	681	475
9	Gross sales	....	....	177	....	....	....	....	....	....	....
10	Exchange, or maturity shift	−697	3,854	−2,588	−59	−79	285	−66	430	−7	252
	5 to 10 years:										
11	Gross purchases	434	1,510	1,048	....	72	272	....	62	170	128
12	Gross sales	....	....	....	....	....	....	....	....	....	....
13	*Exchange, or maturity shift*	1,675	−4,697	1,572	....	1,354	....	....	−1,167	....	....
	Over 10 years:										
14	Gross purchases	196	1,070	642	....	65	95	....	73	119	48
15	Gross sales	....	....	....	....	....	....	....	....	....	....
16	*Exchange, or maturity shift*	205	848	225	....	250	....	....	310	....	....
	All maturities:[1]										
17	Gross purchases	13,537	[2]21,313	19,707	279	1,579	2,202	618	612	2,004	3,229
18	Gross sales	5,830	5,599	8,639	1,413	....	171	....	480	1,546	313
19	Redemptions	4,682	[2]9,980	[2]5,017	875	....	....	200	600	....	....
	Matched sale-purchase transactions										
20	Gross sales	64,229	151,205	196,078	10,522	16,389	19,828	23,289	22,675	23,193	24,595
21	Gross purchases	62,801	152,132	196,579	10,468	16,180	19,563	24,501	21,525	24,343	22,544
	Repurchase agreements										
22	Gross purchases	71,333	140,311	232,891	12,947	26,641	24,108	16,603	17,612	30,872	23,820
23	Gross sales	70,947	139,538	230,355	14,657	24,655	23,477	18,821	20,173	27,119	27,573
24	Net change in U.S. Govt. securities	1,984	7,434	9,087	−3,773	3,357	2,397	−588	−4,179	5,361	2,887
	FEDERAL AGENCY OBLIGATIONS										
	Outright transactions:										
25	Gross purchases	3,087	1,616	891	....	....	....	....	115	....	....
26	Gross sales	....	....	....	....	....	....	....	....	....	....
27	Redemptions	322	246	169	....	27	22	....	14	63	4
	Repurchase agreements:										
28	Gross purchases	23,204	15,179	10,520	495	769	1,071	705	897	1,380	930
29	Gross sales	22,735	15,566	10,360	726	674	889	949	976	1,102	1,208
	BANKERS ACCEPTANCES										
30	Outright transactions, net	511	163	−545	−31	−68	−55	−9	−9	8	−5
31	Repurchase agreements, net	420	−35	410	−339	220	85	−492	−140	795	−795
32	**Net change in total System Account**	**6,149**	**8,539**	**9,833**	**−4,375**	**3,577**	**2,587**	**−1,332**	**−4,307**	**6,379**	**−3,969**

[1] Both gross purchases and redemptions include special certificates created when the Treasury borrows directly from the Federal Reserve, as follows (millions of dollars): 1973, 1,187; 1974, 131; and 1975, 3,549.

[2] *In 1975, the System obtained $421 million of 2-year Treasury notes* in exchange for maturing bills. In 1976 there was a similar transaction amounting to $189 million. Acquisition of these notes is treated as a purchase; the run-off of bills, as a redemption.

NOTE.—Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

1.18 FEDERAL RESERVE BANKS Condition and F.R. Note Statements

Millions of dollars

	Account	1977 Jan 26	1977 Feb. 2	1977 Feb. 9	1977 Feb. 16	1977 Feb. 23p	1976 Dec. 31	1977 Jan 31	1977 Feb. 28p
		Consolidated condition statement							
	ASSETS								
1	Gold certificate account	11,658	11,658	11,658	11,658	11,651	11,598	11,658	11,651
2	Special Drawing Rights certificate account	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
3	Cash	381	391	395	388	382	364	395	388
	Loans:								
4	Member bank borrowings	483	347	81	738	77	25	47	24
5	Other	....	....	....	....	....	....	....	....
	Acceptances:								
6	Bought outright	193	191	191	186	179	196	191	173
7	Held under repurchase agreements	268	....	240	327	323	795	....	149
	Federal agency obligations:								
8	Bought outright	6,790	6,790	6,790	6,790	6,790	6,794	6,790	6,767
9	Held under repurchase agreements	199	....	121	111	243	278	....	77
	U.S. Govt. securities								
	Bought outright:								
10	Bills	39,675	36,009	40,356	38,232	38,968	38,571	38,742	38,826
11	Certificates—Special	....	....	....	....	....	....	....	....
12	Other	....	....	....	....	....	....	....	....
13	Notes	48,601	48,619	48,619	48,319	48,920	47,972	48,619	48,920
14	Bonds	6,773	6,773	6,773	7,073	7,159	6,725	6,773	7,159
15	Total[1]	95,049	91,401	95,748	93,624	95,047	93,268	94,134	94,905
16	Held under repurchase agreements	2,360	....	1,908	3,009	4,324	3,753	....	932
17	**Total U.S. Govt. securities**	**97,409**	**91,401**	**97,656**	**96,633**	**99,371**	**97,021**	**94,134**	**95,837**
18	**Total loans and securities**	**105,342**	**98,729**	**105,079**	**104,785**	**106,983**	**105,109**	**101,162**	**103,027**
19	Cash items in process of collection	8,138	9,367	8,357	9,480	10,701	7,835	5,995	6,250
20	Bank premises	366	367	368	369	369	363	366	371
21	Operating equipment	....	....	....	....	....	25	....	....
	Other assets:								
22	Denominated in foreign currencies	212	207	209	125	53	170	222	62
23	All other	3,438	2,730	2,846	2,027	2,292	2,620	3,021	2,358
24	**Total assets**	**130,735**	**124,649**	**130,112**	**130,032**	**133,631**	**129,284**	**124,019**	**125,307**
	LIABILITIES								
25	F.R. notes	81,666	81,474	82,062	81,992	82,061	83,727	81,198	81,709
	Deposits:								
26	Member bank reserves	28,997	22,714	29,322	27,158	28,636	25,158	23,411	22,788
27	U.S. Treasury—General account	10,283	10,980	9,627	10,854	11,778	10,393	11,397	12,179
28	Foreign	253	256	272	295	222	352	383	362
29	Other[2]	722	614	759	518	551	1,357	642	856
30	**Total deposits**	**40,255**	**34,564**	**39,980**	**38,825**	**41,187**	**37,260**	**35,833**	**36,185**
31	Deferred availability cash items	5,398	5,662	4,961	5,982	6,945	5,234	3,513	3,783
32	Other liabilities and accrued dividends	1,020	945	990	999	1,088	1,097	980	1,193
33	**Total liabilities**	**128,339**	**122,645**	**127,993**	**127,798**	**131,281**	**127,318**	**121,524**	**122,870**
	CAPITAL ACCOUNTS								
34	Capital paid in	984	986	986	986	989	983	986	989
35	Surplus	983	983	983	983	983	983	983	983
36	Other capital accounts	429	35	150	265	378	....	526	465
37	**Total liabilities and capital accounts**	**130,735**	**124,649**	**130,112**	**130,032**	**133,631**	**129,284**	**124,019**	**125,307**
	MEMO:								
38	Marketable U.S. Govt. securities held in custody for foreign and intl. account	51,798	52,729	53,359	54,747	54,040	50,269	52,271	53,991
		Federal Reserve note statement							
39	F.R. notes outstanding (issued to Bank)	88,712	88,549	88,425	88,307	88,221	89,303	88,603	88,205
	Collateral held against notes outstanding:								
40	Gold certificate account	11,656	11,656	11,656	11,656	11,646	11,596	11,656	11,645
41	Special Drawing Rights certificate account	643	643	643	643	643	643	643	643
42	Acceptances	....	....	....	....	....	....	....	....
43	U.S. Govt. securities	78,100	78,100	78,100	78,030	78,030	78,100	78,100	78,030
44	**Total collateral**	**90,399**	**90,399**	**90,399**	**90,329**	**90,319**	**90,339**	**90,399**	**90,318**

1 *Includes* securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

2 Includes certain deposits of domestic nonmember banks and foreign-owned banking institutions voluntarily held with member banks and redeposited in full with F.R. Banks.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

	Type and maturity	Wednesday					End of month		
		1977					1976	1977	
		Jan 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23	Dec. 23	Jan. 31	Feb. 28
1	**Loans**	**482**	**348**	**81**	**737**	**77**	**26**	**46**	**24**
2	Within 15 days	480	342	77	731	72	17	44	19
3	16 days to 90 days	2	6	4	6	5	9	2	5
4	91 days to 1 year	.....	.....	.....	.....	.....	.....	.....	.....
5	**Acceptances**	**461**	**191**	**431**	**573**	**502**	**991**	**191**	**322**
6	Within 15 days	302	34	268	349	343	818	39	169
7	16 days to 90 days	103	103	113	111	110	112	95	106
8	91 days to 1 year	56	54	50	53	49	61	57	47
9	**U.S. Govt. securities**	**97,409**	**91,401**	**97,656**	**96,633**	**99,371**	**97,021**	**94,134**	**95,837**
10	Within 15 days[1]	7,081	4,868	8,561	5,221	8,136	7,207	3,957	3,994
11	16 days to 90 days	18,770	15,561	17,356	20,784	19,920	19,227	18,096	20,862
12	91 days to 1 year	26,204	25,870	26,637	25,689	25,795	25,889	26,979	25,362
13	Over 1 year to 5 years	31,185	30,933	30,933	29,953	30,302	30,710	30,933	30,401
14	Over 5 years to 10 years	9,173	9,173	9,173	9,690	9,841	9,045	9,173	9,841
15	Over 10 years	4,996	4,996	4,996	5,296	5,377	4,949	4,996	5,377
16	**Federal agency obligations**	**6,989**	**6,790**	**6,911**	**6,901**	**7,033**	**7,072**	**6,790**	**6,844**
17	Within 15 days[1]	239	.....	121	232	487	319	40	247
18	16 days to 90 days	330	375	375	254	132	309	330	171
19	91 days to 1 year	1,037	1,054	1,054	1,054	1,054	964	1,037	1,091
20	Over 1 year to 5 years	3,361	3,339	3,339	3,339	3,354	3,355	3,361	3,358
21	Over 5 years to 10 years	1,281	1,281	1,281	1,281	1,265	1,388	1,281	1,217
22	Over 10 years	741	741	741	741	741	737	741	760

[1] Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

1.20 DEMAND DEPOSIT ACCOUNTS Debits and Rate of Turnover

Seasonally adjusted annual rates

	Standard metropolitan statistical area	1973	1974	1975	1976				1977
					Sept.	Oct.	Nov.	Dec.	Jan.
		Debits (billions of dollars)[2]							
1	**All 233 SMSA's**	**18,641.3**	**22,192.2**	**23,565.1**	**27,250.2**	**27,406.2**	**28,061.4**	**r28,914.6**	**29,282.1**
2	New York City	8,097.7	9,931.8	10,970.9	12,727.9	13,522.0	13,495.5	13,835.0	14,411.8
3	*232 SMSA's*	*10,543.6*	*12,260.6*	*12,594.2*	*14,522.3*	*13,884.2*	*14,565.9*	*r15,079.7*	*14,870.3*
4	6 leading SMSA's other than N.Y.C.[1]	4,462.8	5,152.7	4,937.5	5,857.3	5,447.9	5,693.2	5,917.1	5,864.3
5	226 others	6,080.8	7,107.9	7,661.8	8,665.0	8,436.3	8,872.7	r9,162.6	9,006.0
		Turnover of deposits (annual rate)							
6	**All 233 SMSA's**	**110.2**	**128.0**	**131.0**	**145.8**	**146.4**	**147.2**	**r153.3**	**154.1**
7	New York City	269.8	312.8	351.8	393.7	416.2	395.1	419.8	443.5
8	*232 SMSA's*	*75.8*	*86.6*	*84.7*	*94.0*	*89.8*	*93.1*	*r94.0*	*94.4*
9	6 leading SMSA's other than N.Y.C.[1]	115.0	131.8	118.4	136.1	126.6	131.7	136.9	133.5
10	226 others	60.6	69.3	71.6	77.7	75.6	78.3	r77.7	79.3

[1] Boston, Philadelphia, Chicago, Detroit, San Francisco–Oakland, and Los Angeles–Long Beach.

[2] Excludes interbank and U.S. Govt. demand deposit accounts.

NOTE.–Total SMSA's includes some cities and counties not designated as SMSA's.

1.21 MONEY STOCK MEASURES AND COMPONENTS

Billions of dollars; averages of daily figures

Item	1973 Dec.	1974 Dec.	1975 Dec.	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.[3]
	Seasonally adjusted[r]									
MEASURES[1]										
1 *M*-1	270.5	283.1	294.8	305.0	306.3	306.6	310.1	310.1	312.2	313.6
2 *M*-2	571.4	612.4	664.3	705.2	710.5	716.5	725.9	732.0	739.7	745.4
3 *M*-3	919.6	981.5	1,092.9	1,169.2	1,181.4	1,194.5	1,211.2	1,223.6	1,236.9	1,248.4
4 *M*-4	634.4	701.4	746.5	774.1	775.5	779.5	788.2	794.3	803.0	808.4
5 *M*-5	982.5	1,070.5	1,175.1	1,238.2	1,246.3	1,257.6	1,273.6	1,285.8	1,300.2	1,311.5
COMPONENTS										
6 Currency	61.5	67.8	73.7	78.1	78.6	79.2	79.9	80.3	80.7	81.3
Commercial bank deposits:										
7 Demand	209.0	215.3	221.0	226.8	227.7	227.4	230.3	229.8	231.6	232.3
8 *Time and savings*	*363.9*	*418.3*	*451.7*	*469.1*	*469.1*	*472.9*	*478.1*	*484.2*	*490.7*	*494.8*
9 Negotiable CD's[2]	63.0	89.0	82.1	68.9	65.0	63.1	62.3	62.2	63.3	63.1
10 Other	300.9	329.3	369.6	400.2	404.1	409.9	415.8	421.9	427.4	431.8
11 Nonbank thrift institutions[3]	348.1	369.1	428.6	464.0	470.9	478.0	485.3	491.6	497.3	503.1
	Not seasonally adjusted[r]									
MEASURES[1]										
12 *M*-1	278.3	291.3	303.2	305.3	303.3	304.6	309.0	312.1	321.1	319.5
13 *M*-2	576.5	617.5	669.3	705.7	707.3	712.8	723.0	729.7	744.7	750.3
14 *M*-3	921.8	983.8	1,094.6	1,173.7	1,178.6	1,189.2	1,205.5	1,216.5	1,237.7	1,250.9
15 *M*-4	640.5	708.0	752.8	774.6	773.6	778.1	787.1	792.6	809.0	813.4
16 *M*-5	985.8	1,074.3	1,178.1	1,242.6	1,244.9	1,254.5	1,269.7	1,279.4	1,302.0	1,314.1
COMPONENTS										
17 Currency	62.7	69.0	75.1	78.7	78.9	79.0	79.7	80.8	82.2	80.7
Commercial bank deposits:										
18 *Demand*	*215.7*	*222.2*	*228.1*	*226.6*	*224.4*	*225.6*	*229.3*	*231.2*	*239.0*	*238.8*
19 Member	156.5	159.7	162.1	160.1	158.4	159.0	161.7	162.6	168.5	168.2
20 Domestic nonmember	56.3	58.5	62.6	62.5	62.1	62.9	63.9	64.8	66.4	66.6
21 *Time and savings*	*362.2*	*416.7*	*449.6*	*469.2*	*470.3*	*473.5*	*478.2*	*480.5*	*487.8*	*493.9*
22 Negotiable CD's[2]	64.0	90.5	83.5	68.9	66.3	65.3	64.2	62.9	64.3	63.1
23 Other	298.2	326.3	366.2	400.3	404.0	408.2	414.0	417.6	423.5	430.7
24 Nonbank thrift institutions[3]	345.3	366.3	425.3	468.0	471.3	476.4	482.6	486.8	493.1	500.6
25 U.S. Govt. deposits (all commercial banks)	6.3	4.9	4.1	3.4	3.7	4.9	3.9	4.0	4.4	3.8

1 Composition of the money stock measures is as follows:

M-1: Averages of daily figures for (1) demand deposits of commercial banks other than domestic interbank and U.S. Govt., less cash items in process of collection and F.R. float; (2) foreign demand balances at F.R. Banks; and (3) currency outside the Treasury, F.R. Banks, and vaults of commercial banks.

M-2: *M*-1 plus savings deposits, time deposits open account, and time certificates of deposits (CD's) other than negotiable CD's of $100,000 or more of large weekly reporting banks.

M-3: *M*-2 plus the average of the beginning and end-of-month deposits of mutual savings banks, savings and loan shares, and credit union shares (nonbank thrift).

M-4: *M*-2 plus large negotiable CD's.

M-5: *M*-3 plus large negotiable CD's.

For a description of the latest revisions in the money stock measures, see "Revision of Money Stock Measures" on pp. 82–87 of the February 1976 BULLETIN.

Latest monthly and weekly figures are available from the Board's H.6 release. Back data are available from the Banking Section, Division of Research and Statistics.

Data in this series have been revised; for further details see "Announcements", page 305.

2 Negotiable time CD's issued in denominations of $100,000 or more by large weekly reporting commercial banks.

3 Average of the beginning- and end-of-month figures for deposits of mutual savings banks, for savings capital at savings and loan associations, and for credit union shares.

NOTES TO TABLE 1.23:

1 Adjusted to exclude domestic commercial interbank loans.

2 Loans sold are those sold outright to banks' own foreign branches, nonconsolidated nonbank affiliates of the bank, the banks' holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company. Prior to Aug. 28, 1974, the institutions included had been defined somewhat differently, and the reporting panel of banks was also different. On the new basis, both "Total loans" and "Commercial and industrial loans" were reduced by about $100 million.

3 Reclassification of loans reduced these loans by about $1.2 billion as of Mar. 31, 1976.

4 Data beginning June 30, 1974, include one large mutual savings bank that merged with a nonmember commercial bank. As of that date there were increases of about $500 million in loans, $100 million in "Other securities," and $600 million in "Total loans and investments." As of Oct. 31, 1974, "Total loans and investments" of all commercial banks were reduced by $1.5 billion in connection with the liquidation of one large bank. Reductions in other items were: "Total loans," $1.0 billion (of which $0.6 billion was in "Commercial and industrial loans"), and "Other securities," $0.5 billion. In late November "Commercial and industrial loans" were increased by $0.1 billion as a result of loan reclassifications at another large bank.

NOTE.—Data are for last Wednesday of month except for June 30 and Dec. 31; data are partly or wholly estimated except when June 30 and Dec. 31 are call dates.

1.22 AGGREGATE RESERVES AND DEPOSITS Member Banks

Billions of dollars; averages of daily figures

	Item	1973 Dec.	1974 Dec.	1975 Dec.	1976 June	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
					Seasonally adjusted [r]							
1	Reserves [1]	34.94	33.60	34.73	34.29	34.34	34.51	34.34	34.51	34.85	34.95	34.78
2	Nonborrowed	33.64	35.87	34.60	34.16	34.21	34.41	34.27	34.41	34.78	34.90	34.71
3	Required	34.64	36.34	34.47	34.07	34.11	34.31	34.14	34.29	34.59	34.68	34.51
4	Deposits subject to reserve requirements [2]	442.3	486.2	505.4	513.0	514.1	514.2	515.6	520.0	524.9	529.6	532.5
5	Time and savings	210.5	322.1	337.9	341.9	343.5	341.7	343.3	346.2	350.2	355.0	357.3
	Demand:											
6	Private	158.1	160.6	164.5	167.5	167.9	168.6	168.7	170.4	170.7	171.4	172.5
7	U.S. Govt.	5.0	3.5	3.0	3.6	2.7	3.9	3.6	3.4	4.0	3.2	2.7
8	Deposits plus nondeposit items [3]	448.9	495.6	513.8	521.4	522.9	523.2	523.9	529.2	534.2	539.1	541.1
					Not seasonally adjusted [r]							
9	Deposits subject to reserve requirements [2]	447.5	491.8	510.9	512.7	513.9	511.3	514.9	518.9	522.5	534.8	537.7
10	Time and savings	278.5	321.7	337.2	342.5	343.7	342.7	344.1	346.7	347.6	353.6	357.0
	Demand:											
11	Private	164.0	166.6	170.7	166.7	167.7	165.9	167.2	169.5	171.9	177.9	177.8
12	U.S. Govt.	5.0	3.5	3.1	3.6	2.5	2.7	3.6	2.9	2.9	3.3	2.9
13	Deposits plus nondeposit items [3]	454.0	500.1	519.3	521.2	522.8	520.3	523.3	528.1	531.8	544.2	546.3

[1] Series reflects actual reserve requirement percentages with no adjustment to eliminate the effect of changes in Regulations D and M. There are breaks in series because of changes in reserve requirements effective Dec. 12, 1974; Feb. 13, May 22, and Oct. 30, 1975; and Jan. 8, 1976. In addition, effective Jan. 1, 1976, statewide branching in New York was instituted. The subsequent merger of a number of banks raised required reserves because of higher reserve requirements on aggregate deposits at these banks.

[2] Includes total time and savings deposits and net demand deposits as defined by Regulation D. Private demand deposits include all demand deposits except those due to the U.S. Govt., less cash items in process of collection and demand balances due from domestic commercial banks.

[3] "Total member bank deposits" subject to reserve requirements, plus Euro-dollar borrowings, loans sold to bank-related institutions, and certain other nondeposit items. This series for deposits is referred to as "the adjusted bank credit proxy."

NOTE.—Back data and estimates of the impact on required reserves of changes in reserve requirements are shown in Table 14 of the Board's *Annual Statistical Digest, 1971–1975*. Data in this series have been revised; for further details see "Announcements", page 305.

1.23 LOANS AND INVESTMENTS All Commercial Banks

Billions of dollars; last Wednesday of month except for June 30 and Dec. 31

	Category	1973 Dec. 31	[4] 1974 Dec. 31	1975 Dec. 31	1976 Aug. 25 p	1976 Sept. 29 p	1976 Oct. 27 p	1976 Nov. 24 p	1976 Dec. 31 p	1977 Jan. 26 p	1977 Feb. 23 p
					Seasonally adjusted						
1	Loans and investments [1]	633.4	690.4	721.1	748.7	752.5	760.3	766.3	767.5	773.1	782.8
2	Including loans sold outright [2]	637.7	695.2	725.5	752.8	756.6	764.3	770.3	771.6	777.4	787.0
	Loans:										
3	Total	449.0	500.2	496.9	507.6	511.4	519.3	521.8	521.6	528.4	532.9
4	Including loans sold outright [2]	453.3	505.0	501.3	511.7	515.5	523.3	525.8	525.7	532.7	537.1
5	Commercial and industrial [3]	156.4	183.3	176.0	171.0	172.0	174.8	176.7	176.2	177.1	178.6
6	Including loans sold outright [2,3]	159.0	186.0	178.5	173.6	174.6	177.4	179.3	178.8	180.0	181.5
	Investments:										
7	U.S. Treasury	54.5	50.4	79.4	95.0	94.0	93.5	94.3	96.5	95.7	100.2
8	Other	129.9	139.8	144.8	146.1	147.1	147.5	150.2	149.4	149.0	149.7
					Not seasonally adjusted						
9	Loans and investments [1]	647.3	705.6	737.0	746.1	752.9	758.7	766.0	784.4	771.4	776.6
10	Including loans sold outright	651.6	710.4	741.4	750.2	757.0	762.7	770.0	788.5	775.7	780.8
	Loans:										
11	Total [1]	458.5	510.7	507.4	508.5	513.3	518.2	520.6	532.6	523.6	526.5
12	Including loans sold outright [2]	462.8	515.5	511.8	512.6	517.4	522.2	524.6	536.7	527.9	530.7
13	Commercial and industrial [3]	159.4	186.8	179.3	170.3	172.5	174.2	176.0	179.5	175.2	176.8
14	Including loans sold outright [2,3]	162.0	189.5	181.8	172.9	175.1	176.8	178.6	182.1	178.1	179.7
	Investments:										
15	U.S. Treasury	58.3	54.5	84.1	91.8	92.6	93.5	96.9	101.7	99.8	101.3
16	Other	130.6	140.5	145.5	145.8	147.0	147.0	148.6	150.2	148.0	148.7

For notes see bottom of opposite page.

1.24 COMMERCIAL BANK ASSETS AND LIABILITIES Last-Wednesday-of-Month Series

Billions of dollars, except for number of banks

	Account	1974	1975		1976[3]						1977	
		Dec. 31	Dec. 31	June 30p	July 28p	Aug. 25p	Sept. 29p	Oct. 27p	Nov. 24p	Dec. 29p	Jan. 26p	Feb. 23p
							All commercial					
1	**Loans and investments**	**744.1**	**775.8**	**779.8**	**772.5**	**782.1**	**790.4**	**796.9**	**805.6**	**826.4**	**811.5**	**818.7**
2	Loans gross	549.2	546.2	543.7	537.6	544.5	550.8	556.4	560.2	576.0	563.7	568.7
	Investments:											
3	U.S. Treasury securities	54.5	84.1	90.8	89.5	91.8	92.6	93.5	96.9	101.2	99.8	101.3
4	Other	140.5	145.5	145.3	145.5	145.8	146.9	147.0	148.6	149.2	148.0	148.7
5	**Cash assets**	**128.0**	**133.6**	**125.2**	**111.5**	**109.1**	**118.7**	**115.2**	**124.3**	**128.7**	**117.8**	**124.3**
6	Currency and coin	11.7	12.3	12.0	12.2	12.0	12.2	12.5	11.8	13.9	12.6	12.3
7	Reserves with F.R. Banks	27.1	26.8	27.1	28.0	25.4	29.7	26.4	29.1	29.9	28.6	28.7
8	Balances with banks	42.0	47.3	40.4	34.6	36.1	36.1	36.7	40.2	39.8	37.2	39.2
9	Cash items in process of collection	47.3	47.3	45.7	36.7	35.6	40.6	39.5	43.3	45.1	39.4	44.2
10	**Total assets/total liabilities and capital**[1]	**919.6**	**964.9**	**957.1**	**934.3**	**940.5**	**960.0**	**962.6**	**982.9**	**1,010.8**	**983.4**	**997.8**
11	**Deposits**	**747.9**	**786.3**	**782.8**	**761.2**	**759.4**	**773.3**	**777.9**	**789.1**	**812.4**	**792.2**	**800.3**
	Demand:											
12	Interbank	43.5	41.8	38.3	33.1	33.4	35.2	34.8	39.9	39.1	35.7	37.0
13	U.S. Govt.	4.8	3.1	4.7	3.5	3.7	5.8	3.7	3.3	3.4	3.9	3.7
14	Other	267.5	278.7	266.4	250.6	247.4	252.9	258.2	260.8	275.9	256.9	260.8
	Time:											
15	Interbank	11.5	12.0	10.6	10.2	9.7	9.5	9.1	9.0	9.2	8.8	8.6
16	Other	420.6	450.6	462.9	463.8	465.3	469.9	472.2	476.1	484.8	486.8	490.3
17	Borrowings	58.4	60.2	65.9	66.8	72.3	77.5	76.0	83.6	88.0	81.2	86.8
18	**Total capital accounts**[2]	**63.7**	**69.1**	**72.1**	**72.2**	**72.5**	**73.1**	**73.7**	**74.1**	**75.0**	**75.5**	**75.4**
19	MEMO: Number of banks	14,465	14,633	14,636	14,635	14,649	14,655	14,659	14,674	14,671	14,671	14,671
							Member					
20	**Loans and investments**	**568.5**	**578.6**	**577.5**	**570.1**	**578.2**	**583.6**	**588.6**	**595.3**	**612.7**	**598.8**	**603.7**
21	Loans, gross	429.5	416.4	411.7	405.3	410.8	415.1	419.5	421.9	435.3	424.2	427.8
	Investments:											
22	U.S. Treasury securities	38.9	61.5	65.6	64.4	66.7	67.0	67.7	70.8	74.3	72.6	73.7
23	Other	100.1	100.7	100.2	100.3	100.7	101.5	101.4	102.6	103.1	102.0	102.3
24	**Cash assets, total**	**107.0**	**108.5**	**104.0**	**92.3**	**89.4**	**98.9**	**94.9**	**103.0**	**107.6**	**97.7**	**102.8**
25	Currency and coin	8.8	9.2	9.0	9.1	9.0	9.2	9.4	8.9	10.5	9.5	9.3
26	Reserves with F.R. Banks	27.1	26.8	27.1	28.0	25.4	29.8	26.4	29.1	29.9	28.6	28.6
27	Balances with banks	25.5	26.9	23.8	19.6	20.5	20.6	20.9	23.3	23.5	21.5	22.2
28	Cash items in process of collection	45.6	45.5	44.1	35.5	34.4	39.3	38.2	41.8	43.7	38.1	42.7
29	**Total assets/total liabilities and capital**[1]	**715.6**	**733.6**	**726.8**	**706.2**	**710.7**	**726.8**	**727.6**	**744.8**	**769.1**	**744.6**	**755.1**
30	**Deposits**	**575.6**	**590.8**	**585.3**	**565.1**	**562.4**	**573.9**	**576.1**	**584.8**	**604.6**	**587.0**	**592.0**
	Demand:											
31	Interbank	41.1	38.6	35.6	30.7	30.9	32.7	32.2	37.2	36.4	33.1	34.1
32	U.S. Govt.	3.2	2.3	3.7	2.7	2.8	4.3	2.9	2.4	2.5	3.0	2.7
33	Other	204.2	210.8	202.1	188.6	185.9	191.0	194.7	196.0	208.6	193.7	196.6
	Time:											
34	Interbank	10.1	10.0	8.6	8.1	7.6	7.5	7.1	7.0	7.2	6.8	6.6
35	Other	317.1	329.1	335.4	334.9	335.1	338.4	339.2	342.1	349.9	186.9	351.9
36	Borrowings	52.9	53.6	59.3	60.3	65.9	70.6	69.1	76.4	80.4	73.6	78.0
37	**Total capital accounts**[2]	**48.2**	**52.1**	**55.0**	**55.1**	**55.4**	**55.7**	**56.2**	**56.6**	**57.3**	**57.7**	**57.9**
38	MEMO: Number of banks	5,780	5,788	5,776	5,767	5,771	5,773	5,768	5,767	5,759	5,759	5,759

[1] *Includes items not shown separately.*

Effective Mar. 31, 1976, some of the item "reserve for loan losses" and all of the item "unearned income on loans" are no longer reported as liabilities. As of that date the "valuation" portion of "reserve for loan losses" and the "unearned income on loans" have been netted against "other assets," and against "total assets" as well.

Total liabilities continue to include the deferred income tax portion of "reserve for loan losses."

[2] Effective Mar. 31, 1976, includes "reserves for securities" and the contingency portion (which is small) of "reserve for loan losses."

[3] Figures partly estimated except on call dates.

NOTE.—Figures include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries.

Commercial banks: All such banks in the United States, including member and nonmember banks, *stock savings banks, nondeposit trust* companies, and U.S. branches of foreign banks, but excluding one national bank in Puerto Rico and two in the Virgin Islands.

Member banks: The following numbers of noninsured trust companies that are members of the Federal Reserve System are excluded from member banks in Tables 1.24 and 1.25 and are included with noninsured banks in Table 1.25: 1974—June, 2; December, 3; 1975—June and December, 4; 1976 (beginning month shown)—July, 5.

1.25 COMMERCIAL BANK ASSETS AND LIABILITIES Call-Date Series

Millions of dollars except for number of banks

	Account	1974	1975		1976	1974	1975		1976
		Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30
		Total insured				National (all insured)			
1	**Loans and investments, Gross**	**734,516**	**736,164**	**762,400**	**773,696**	**428,433**	**428,167**	**441,135**	**443,955**
	Loans:								
2	Gross	541,111	526,272	535,170	539,017	321,466	312,229	315,738	315,624
3	Net	(2)	(2)	(2)	520,970	(2)	(2)	(2)	305,275
	Investments:								
4	U.S. Treasury securities	54,132	67,833	83,629	87,413	29,075	37,606	46,799	47,409
5	Other	139,272	142,060	143,602	147,266	77,892	78,331	78,598	80,922
6	Cash assets	125,375	125,181	128,256	124,072	76,523	75,686	78,026	75,488
7	**Total assets/total liabilities[1]**	**906,325**	**914,781**	**944,654**	**942,511**	**534,207**	**536,836**	**553,285**	**548,698**
8	**Deposits**	**741,665**	**746,348**	**775,209**	**776,957**	**431,039**	**431,646**	**447,590**	**444,251**
	Demand:								
9	U.S. Govt	4,799	3,106	3,108	4,622	2,437	1,723	1,788	2,858
10	Interbank	42,587	41,244	40,259	37,503	23,497	21,096	22,305	20,329
11	Other	265,444	261,903	276,384	265,670	154,397	152,576	159,840	152,382
	Time:								
12	Interbank	10,693	10,252	10,733	9,407	6,750	6,804	7,302	5,532
13	Other	418,142	429,844	444,725	459,753	243,959	249,446	256,355	263,148
14	Borrowings	55,988	59,310	56,775	63,824	39,603	41,954	40,875	45,184
15	**Total capital accounts**	**63,039**	**65,986**	**68,474**	**68,990**	**35,815**	**37,483**	**38,969**	**39,504**
16	MEMO: Number of banks	14,216	14,320	14,372	14,373	4,706	4,730	4,741	4,747
		State member (all insured)				Insured nonmember			
17	**Loans and investments, Gross**	**140,373**	**134,759**	**137,620**	**136,915**	**165,709**	**173,238**	**183,645**	**192,825**
	Loans:								
18	Gross	108,346	100,968	100,823	98,889	111,300	113,074	118,609	124,503
19	Net	(2)	(2)	(2)	96,036	(2)	(2)	(2)	119,658
	Investments:								
20	U.S. Treasury securities	9,846	12,004	14,720	15,096	15,211	18,223	22,109	24,907
21	Other	22,181	21,787	22,077	22,929	39,199	41,942	42,927	43,414
22	Cash assets	30,473	31,466	30,451	30,422	18,380	18,029	19,778	18,161
23	**Total assets/total liabilities**	**181,683**	**179,787**	**180,495**	**179,644**	**190,435**	**198,157**	**210,874**	**214,167**
24	**Deposits**	**144,799**	**141,995**	**143,409**	**142,061**	**165,827**	**172,707**	**184,210**	**190,644**
	Demand:								
25	U.S. Govt	746	443	467	869	1,616	940	853	894
26	Interbank	17,565	18,751	16,265	15,834	1,525	1,397	1,689	1,339
27	Other	49,807	48,621	50,984	49,658	61,240	60,706	65,560	63,629
	Time:								
28	Interbank	3,301	2,771	2,712	3,074	642	676	719	799
29	Other	73,380	71,409	72,981	72,624	100,804	108,989	115,389	123,980
30	Borrowings	13,247	14,380	12,771	15,300	3,138	2,976	3,128	3,339
31	**Total capital accounts**	**12,425**	**12,773**	**13,105**	**12,790**	**14,799**	**15,730**	**16,400**	**16,696**
32	MEMO: Number of banks	1,074	1,064	1,046	1,029	8,436	8,526	8,585	8,597
		Noninsured nonmember				Total nonmember			
33	**Loans and investments, Gross**	**9,981**	**11,725**	**13,674**	**15,905**	**175,690**	**184,963**	**197,319**	**208,730**
	Loans:								
34	Gross	8,461	9,559	11,283	13,209	119,761	122,633	129,892	137,712
35	Net	(2)	(2)	(2)	13,092	(2)	(2)	(2)	132,751
	Investments:								
36	U.S. Treasury securities	319	358	490	472	15,530	18,581	22,599	25,379
37	Other	1,201	1,808	1,902	2,223	40,400	43,750	44,829	45,637
38	Cash assets	2,667	3,534	5,359	4,362	21,047	21,563	25,137	22,524
39	**Total assets/total liabilities**	**13,616**	**16,277**	**20,544**	**21,271**	**204,051**	**214,434**	**231,418**	**235,439**
40	**Deposits**	**6,627**	**8,314**	**11,323**	**11,735**	**172,454**	**181,021**	**195,533**	**202,380**
	Demand:								
41	U.S. Govt	8	11	6	4	1,624	951	859	899
42	Interbank	897	1,338	1,552	1,006	2,422	2,735	3,241	2,346
43	Other	2,062	2,124	2,308	2,555	63,302	62,830	67,868	66,184
	Time:								
44	Interbank	803	957	1,291	1,292	1,445	1,633	2,010	2,092
45	Other	2,857	3,883	6,167	6,876	103,661	112,872	121,556	130,857
46	Borrowings	2,382	3,110	3,449	3,372	5,520	6,086	6,577	6,711
47	**Total capital accounts**	**611**	**570**	**651**	**663**	**15,410**	**16,300**	**17,051**	**17,359**
48	MEMO: Number of banks	249	253	261	270	8,685	8,779	8,846	8,867

[1] Includes items not shown separately.
[2] Not available.

For Note see Table 1.24.

1.26 COMMERCIAL BANK ASSETS AND LIABILITIES Detailed Balance Sheet, June 30, 1976

Asset and liability items are shown in millions of dollars

Asset account	All commercial banks	Insured commercial banks	Member banks[1] Total	Member banks[1] Large banks: New York City	Member banks[1] Large banks: City of Chicago	Member banks[1] Large banks: Other large	Member banks[1] All other	Nonmember banks[1]
1 **Cash bank balances, items in process**	**128,435**	**124,072**	**105,911**	**26,914**	**4,699**	**41,097**	**33,201**	**22,524**
2 Currency and coin	11,984	11,972	8,987	686	184	3,054	5,063	2,997
3 Reserves with F.R. Banks	28,212	28,212	28,212	4,956	2,174	11,508	9,575	
4 Demand balances with banks in United States	30,921	28,765	17,838	6,562	286	3,351	7,639	13,083
5 Other balances with banks in United States	6,833	6,041	3,818	93	7	1,478	2,240	3,015
6 Balances with banks in foreign countries	4,948	3,623	3,179	327	33	1,767	1,052	1,769
7 Cash items in process of collection	45,537	45,459	43,877	14,290	2,016	19,939	7,633	1,660
8 **Total securities held—Book value**	**235,836**	**233,184**	**165,113**	**18,349**	**7,553**	**53,364**	**85,847**	**70,723**
9 U.S. Treasury	91,420	90,948	66,013	9,209	3,766	22,163	30,875	25,408
10 Other U.S. Govt. agencies	34,264	33,729	20,706	996	348	5,880	13,482	13,558
11 States and political subdivisions	102,994	102,694	74,465	7,718	3,225	24,322	39,201	28,529
12 All other securities	6,995	5,701	3,849	425	214	970	2,239	3,146
13 Unclassified total	162	113	80			30	50	83
14 *Trading-account securities*	*5,795*	*5,745*	*5,654*	*2,612*	*678*	*2,103*	*261*	*141*
15 U.S. Treasury	3,535	3,535	3,507	1,950	494	970	93	28
16 Other U.S. Govt. agencies	665	665	659	244	44	342	28	6
17 States and political subdivisions	1,043	1,043	1,025	316	80	557	73	17
18 All other trading acct. securities	391	391	383	103	60	204	17	8
19 Unclassified	162	113	80			30	50	83
20 *Bank investment portfolios*	*230,041*	*227,439*	*159,460*	*15,737*	*6,875*	*51,261*	*85,586*	*70,582*
21 U.S. Treasury	87,886	87,413	62,506	7,260	3,272	21,193	30,782	25,380
22 Other U.S. Govt. agencies	33,600	33,064	20,047	752	304	5,538	13,454	13,552
23 States and political subdivisions	101,952	101,651	73,440	7,403	3,145	23,764	39,128	28,512
24 All other portfolio securities	6,604	5,310	3,466	323	155	766	2,223	3,138
25 F.R. stock and corporate stock	1,539	1,495	1,244	248	78	470	448	295
26 **Federal funds sold and securities resale agreement**	**36,120**	**34,262**	**26,819**	**1,929**	**1,150**	**14,110**	**9,630**	**9,300**
27 Commercial banks	30,954	29,471	22,170	1,094	1,016	10,937	9,124	8,784
28 Brokers and dealers	2,658	2,459	2,376	180	108	1,703	384	283
29 Others	2,507	2,333	2,273	655	26	1,470	123	234
30 **Other loans, gross**	**516,107**	**504,755**	**387,695**	**67,105**	**20,802**	**147,088**	**152,699**	**128,412**
31 LESS: Unearned income on loans	12,000	11,941	8,286	471	81	2,824	4,910	3,714
32 Reserves for loan loss	6,163	6,105	4,916	1,112	331	1,830	1,642	1,248
33 Other loans, net	497,944	486,709	374,493	65,522	20,390	142,434	146,148	123,451
Other loans, gross, by category								
34 *Real estate loans*	*141,964*	*141,737*	*100,545*	*8,693*	*1,988*	*36,933*	*52,930*	*41,419*
35 Construction and land development	16,568	16,562	13,586	3,119	532	6,352	3,584	2,981
36 Secured by farmland	6,355	6,344	2,717	2	14	288	2,413	3,638
37 Secured by residential	80,203	80,062	57,630	3,976	922	21,168	31,563	22,573
38 *1- to 4-family residences*	*75,826*	*75,692*	*54,450*	*3,563*	*821*	*20,034*	*30,032*	*21,376*
39 FHA-insured or VA-guaranteed	8,297	8,262	7,150	533	52	3,958	2,607	1,147
40 Conventional	67,529	67,429	47,300	3,030	769	16,076	27,425	20,229
41 *Multifamily residences*	*4,377*	*4,371*	*3,180*	*413*	*101*	*1,134*	*1,531*	*1,197*
42 FHA-insured	412	411	321	121	25	99	77	90
43 Conventional	3,965	3,960	2,859	293	76	1,035	1,455	1,107
44 Secured by other properties	38,839	38,769	26,612	1,596	521	9,125	15,370	12,227
45 *Loans to financial institutions*	*41,609*	*36,645*	*34,684*	*12,206*	*4,548*	*14,980*	*2,949*	*6,925*
46 To REIT's and mortgage companies	10,556	10,510	10,172	3,753	1,457	4,193	769	384
47 To domestic commercial banks	5,182	3,201	2,527	806	138	1,215	369	2,655
48 To banks in foreign countries	8,625	6,076	5,907	2,297	324	2,873	413	2,718
49 To other depository institutions	1,637	1,572	1,424	185	25	1,064	151	212
50 To other financial institutions	15,608	15,285	14,652	5,165	2,605	5,635	1,248	956
51 Loans to security brokers and dealers	7,743	7,521	7,390	4,535	987	1,734	134	353
52 Other loans to purch./carry securities	4,032	4,018	3,373	428	314	1,720	911	659
53 Loans to farmers—except real estate	22,174	22,149	12,380	77	135	2,988	9,179	9,795
54 Commercial and industrial loans	174,384	169,345	140,087	33,896	10,435	55,517	40,239	34,297
55 Loans to individuals	110,393	110,031	77,597	4,680	1,627	27,854	43,435	32,796
56 *Instalment loans*	*87,465*	*87,141*	*61,238*	*3,322*	*916*	*22,383*	*34,617*	*26,227*
57 Passenger automobiles	36,951	36,685	24,065	510	150	7,291	16,114	12,886
58 Residential-repair/modernize	6,107	6,106	4,320	263	37	1,747	2,274	1,787
59 Credit cards and related plans	12,196	12,193	10,746	1,127	534	6,112	2,973	1,450
60 Charge-account credit cards	9,517	9,516	8,540	817	504	4,987	2,232	977
61 Check and revolving credit plans	2,680	2,677	2,206	310	30	1,125	741	473
62 Other retail consumer goods	15,536	15,526	10,730	203	86	3,884	6,557	4,805
63 Mobile homes	8,720	8,719	6,238	112	33	2,300	3,792	2,483
64 Other	6,815	6,807	4,493	91	52	1,584	2,765	2,323
65 Other instalment loans	16,675	16,630	11,376	1,219	109	3,350	6,698	5,299
66 Single-payment loans to individuals	22,927	22,891	16,358	1,358	711	5,471	8,818	6,569
67 All other loans	13,807	13,309	11,639	2,589	766	5,362	2,922	2,168
68 **Total loans and securities, net**	**771,439**	**755,650**	**567,670**	**86,047**	**29,171**	**210,378**	**242,074**	**203,769**
69 Direct lease financing	4,675	4,675	4,455	983	128	2,714	630	221
70 Fixed assets—Buildings, furniture, real estate	18,585	18,484	13,902	1,626	611	5,605	6,060	4,683
71 Investment in unconsolidated subsidiaries	2,107	2,104	2,063	827	160	1,005	70	44
72 Customer acceptances outstanding	10,682	10,316	9,990	5,278	517	3,924	271	692
73 Other assets	27,861	27,210	24,353	9,081	1,627	9,775	3,871	3,507
74 **Total assets**	**963,783**	**942,511**	**728,344**	**130,756**	**36,912**	**274,499**	**286,177**	**235,440**

For notes see ~~opposite page~~.

1.26 Continued

Liability or capital account	All commercial banks	Insured commercial banks	Member banks[1]						Nonmember banks[1]
			Total	Large banks				All other	
				New York City	City of Chicago	Other large			
75 **Demand deposits**	**311,363**	**307,796**	**241,932**	**54,110**	**9,807**	**87,697**		**90,318**	**69,431**
76 Mutual savings banks	1,299	1,113	1,014	491	2	229		291	286
77 Other individuals, partnerships, and corporations	236,614	235,547	179,037	29,740	7,268	67,579		74,449	57,577
78 U.S. Govt	4,627	4,623	3,728	474	154	1,604		1,496	900
79 States and political subdivisions	17,336	17,216	12,278	620	155	3,732		7,770	5,058
80 Foreign governments, central banks, etc	1,757	1,295	1,250	981	21	230		17	507
81 Commercial banks in United States	30,870	30,573	29,454	13,524	1,781	10,589		3,560	1,416
82 Banks in foreign countries	6,341	5,817	5,697	4,240	148	1,192		117	644
83 Certified and officers' checks, etc	12,520	11,612	9,477	4,038	278	2,542		2,619	3,043
84 **Time deposits**	**293,204**	**285,431**	**212,740**	**32,483**	**13,165**	**77,746**		**89,347**	**80,464**
85 Accumulated for personal loan payments	171	171	136	....	....	13		123	35
86 Mutual savings banks	481	458	445	266	7	135		36	36
87 Other individuals, partnerships, and corporations	227,578	222,500	163,935	22,766	9,494	58,633		73,042	63,643
88 U.S. Govt	678	678	550	77	1	251		220	128
89 States and political subdivisions	43,942	43,653	30,739	803	1,106	13,711		15,121	13,203
90 Foreign governments, central banks, etc	10,143	9,029	8,778	5,255	1,295	2,187		41	1,366
91 *Commercial banks in United States*	8,082	7,522	6,797	2,613	1,162	2,337		685	1,285
92 Banks in foreign countries	2,129	1,419	1,360	702	100	478		80	769
93 **Savings deposits**	**184,126**	**183,730**	**131,640**	**8,752**	**2,715**	**48,362**		**71,811**	**52,486**
94 Individuals and nonprofit organizations	175,381	174,995	125,270	8,332	2,611	45,993		68,334	50,111
95 Corporations and other profit organizations	6,049	6,043	4,521	262	95	1,982		2,182	1,529
96 U.S. Govt	2,648	2,645	1,805	130	9	376		1,290	843
97 All other	47	47	44	28	....	11		4	4
98 **Total deposits**	**788,693**	**776,957**	**586,312**	**95,345**	**25,687**	**213,805**		**251,476**	**202,381**
99 **Federal funds purchased and securities sold under agreements to repurchase**	**60,719**	**58,944**	**55,906**	**11,224**	**7,215**	**29,308**		**8,158**	**4,813**
100 Commercial banks	35,182	33,936	32,667	6,445	4,883	17,374		3,965	2,514
101 Brokers and dealers	8,053	7,976	7,512	735	1,073	4,903		801	542
102 Others	17,484	17,031	15,727	4,045	1,259	7,032		3,392	1,757
103 Other liabilities for borrowed money	6,478	4,881	4,579	2,243	80	1,806		450	1,899
104 Mortgage indebtedness	789	787	577	53	16	316		192	212
105 Bank acceptances outstanding	11,287	10,917	10,591	5,854	525	3,938		274	696
106 Other liabilities	21,262	16,198	14,148	4,736	892	5,575		2,945	7,114
107 **Total liabilities**	**889,228**	**868,684**	**672,114**	**119,456**	**34,415**	**254,749**		**263,495**	**217,114**
108 Subordinated notes and debentures	4,901	4,837	3,935	1,099	83	1,752		1,001	966
109 **Equity capital**	**69,655**	**68,991**	**52,295**	**10,201**	**2,414**	**17,998**		**21,681**	**17,360**
110 Preferred stock	81	75	34	....	....	10		24	47
111 Common stock	15,963	15,843	11,723	2,264	570	3,894		4,995	4,239
112 Surplus	27,903	27,648	20,676	3,966	1,155	7,509		8,047	7,226
113 Undivided profits	23,842	23,630	18,566	3,858	645	6,154		7,909	5,276
114 Other capital reserves	1,867	1,794	1,296	114	44	431		706	571
115 **Total liabilities and equity capital**	**963,783**	**942,511**	**728,344**	**130,756**	**36,912**	**274,499**		**286,177**	**235,440**
MEMO:									
116 Demand deposits adjusted[2]	230,329	227,142	164,874	25,822	5,857	55,566		77,629	65,455
Average for last 15 or 30 days:									
117 *Cash and due from bank*	123,703	119,246	102,291	26,314	4,360	39,625		31,992	21,412
118 Federal funds sold and securities purchased under agreements to resell	38,280	35,632	27,149	2,253	1,341	13,353		10,202	11,131
119 Total loans	502,155	490,759	377,741	66,363	20,569	143,388		147,421	124,414
120 Time deposits of $100,000 or more	146,166	140,300	115,892	29,258	10,747	48,444		27,443	30,275
121 Total deposits	775,140	763,837	574,789	89,888	25,003	209,900		249,999	200,350
122 Federal funds purchased and securities sold under agreements to repurchase	64,655	62,022	58,970	14,334	7,184	29,212		8,240	5,695
123 Other liabilities for borrowed money	6,485	4,782	4,474	2,064	87	1,957		367	2,011
124 Standby letters of credit outstanding	10,950	10,535	9,927	5,289	954	3,043		641	1,023
125 Time deposits of $100,000 or more	146,783	141,105	117,342	28,910	11,159	49,561		27,712	29,441
126 Certificates of deposit	122,071	118,464	97,455	24,503	8,937	39,866		24,149	24,616
127 Other time deposits	24,712	22,641	19,887	4,407	2,221	9,696		3,563	4,825
128 Number of banks	14,643	14,373	5,776	11	9	155		5,601	8,867

1 Member banks exclude and nonmember banks include 5 noninsured trust companies that are members of the Federal Reserve System, and member banks exclude 2 national banks outside the continental United States.

2 Demand deposits adjusted are demand deposits other than domestic commercial interbank and U.S. Govt., less cash items reported as in process of collection.

NOTE.—Data include consolidated reports, including figures for all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Securities are reported on a gross basis before deductions of valuation reserves. Holdings by type of security will be reported as soon as they become available.

Back data in lesser detail were shown in previous BULLETINS. Details may not add to totals because of rounding.

1.27 ALL LARGE WEEKLY REPORTING COMMERCIAL BANKS Assets and Liabilities

Millions of dollars, Wednesday figures

	Account	1977 Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
1	**Total loans and investments**	**415,647**	**413,172**	**410,576**	**404,350**	**407,711**	**404,696**	**408,196**	**406,950**
	Loans:								
2	*Federal funds sold*[1]	*24,716*	*24,251*	*22,655*	*20,207*	*22,822*	*20,082*	*21,311*	*21,403*
3	To commercial banks	20,159	18,553	17,676	16,232	17,026	15,906	16,856	17,212
	To brokers and dealers involving—								
4	U.S. Treasury securities	2,505	3,193	3,029	2,058	2,805	2,223	2,536	2,086
5	Other securities	996	1,317	816	892	971	827	911	1,077
6	To others	1,056	1,188	1,134	1,025	2,020	1,126	1,008	1,028
7	*Other, gross*	*288,576*	*285,976*	*286,369*	*284,078*	*286,032*	*284,798*	*285,968*	*285,152*
8	Commercial and industrial	116,896	115,437	115,136	114,422	114,771	114,840	115,027	115,339
9	Agricultural	4,304	4,300	4,272	4,221	4,183	4,187	4,174	4,165
	For purchasing or carrying securities:								
	To brokers and dealers:								
10	U.S. Treasury securities	1,755	1,742	1,982	1,313	1,523	1,417	1,257	1,278
11	Other securities	7,528	7,557	8,042	7,559	8,075	7,832	8,475	7,582
	To others:								
12	U.S. Treasury securities	83	80	76	74	75	75	77	76
13	Other securities	2,533	2,531	2,526	2,532	2,540	2,540	2,520	2,516
	To nonbank financial institutions:								
14	Personal and sales finance cos., etc.	7,394	7,011	6,936	6,885	7,112	7,071	7,002	6,978
15	Other	16,586	16,296	16,154	16,240	16,152	16,128	16,002	15,846
16	Real estate	63,690	63,753	63,908	63,966	63,945	64,118	64,365	64,413
	To commercial banks:								
17	Domestic	1,813	1,733	1,781	1,883	2,003	1,702	1,777	1,790
18	Foreign	6,042	5,869	5,944	5,790	5,885	5,672	5,915	5,869
19	Consumer instalment	39,633	39,583	39,480	39,547	39,551	39,472	39,544	39,551
20	Foreign governments, official institutions, etc.	1,939	1,991	1,872	1,900	1,952	1,897	1,884	1,857
21	All other loans	18,380	18,093	18,260	17,746	18,265	17,847	17,949	17,892
22	LESS: Loan loss reserve and unearned income on loans	8,536	8,531	8,551	8,555	8,561	8,613	8,673	8,686
23	*Other loans, net*	*280,040*	*277,445*	*277,818*	*275,523*	*277,471*	*276,185*	*277,295*	*276,466*
	Investments:								
24	*U.S. Treasury securities*	*50,038*	*50,333*	*49,622*	*48,185*	*47,615*	*48,147*	*49,273*	*48,822*
25	Bills	13,721	13,487	12,851	11,836	11,121	10,993	10,583	10,281
	Notes and bonds, by maturity:								
26	Within 1 year	7,223	7,205	7,255	7,269	7,577	7,654	7,681	7,805
27	1 to 5 years	24,962	25,307	25,253	24,883	24,631	25,512	26,914	26,785
28	After 5 years	4,132	4,334	4,263	4,197	4,286	3,988	4,095	3,951
29	*Other securities*	*60,853*	*61,143*	*60,481*	*60,435*	*59,803*	*60,282*	*60,317*	*60,259*
	Obligations of States and political subdivisions:								
30	Tax warrants, short-term notes, and bills	6,269	6,602	6,324	6,352	6,009	6,485	6,296	6,220
31	All other	40,355	40,465	40,324	40,245	40,000	40,114	40,177	40,309
	Other bonds, corporate stocks, and securities:								
32	Certificates of participation[2]	2,251	2,239	2,153	2,217	2,244	2,218	2,182	2,178
33	All other, including corporate stocks	11,978	11,837	11,680	11,621	11,550	11,465	11,662	11,552
34	Cash items in process of collection	39,933	36,679	36,792	34,703	36,944	31,676	35,352	38,336
35	Reserves with F.R. Banks	24,329	21,367	20,984	21,894	16,199	23,029	20,960	21,382
36	Currency and coin	5,756	5,908	5,779	5,759	5,273	5,265	5,459	5,634
37	Balances with domestic banks	13,929	13,303	12,392	12,048	12,474	10,922	12,071	12,308
38	Investments in subsidiaries not consolidated	2,402	2,441	2,471	2,471	2,490	2,535	2,515	2,511
39	Other assets	50,839	52,548	50,716	50,701	51,155	51,819	49,784	50,478
40	**Total assets/total liabilities**	**552,835**	**545,418**	**539,710**	**531,926**	**532,246**	**529,942**	**534,337**	**537,599**
	Deposits:								
41	*Demand deposits*	*184,662*	*178,242*	*174,253*	*167,449*	*172,695*	*162,147*	*167,657*	*169,535*
42	Individuals, partnerships, and corporations	131,982	128,675	125,906	120,612	123,671	120,055	121,955	122,731
43	States and political subdivisions	6,397	5,970	6,391	5,997	6,816	6,046	6,147	6,178
44	U.S. Govt.	2,721	1,930	3,077	2,070	1,467	1,255	2,006	1,710
	Domestic interbank:								
45	Commercial	28,093	27,328	23,520	24,292	25,238	21,229	23,794	24,718
46	Mutual savings	1,040	942	889	836	951	796	802	790
	Foreign:								
47	Governments, official institutions, etc.	1,463	1,344	1,276	1,264	1,172	869	793	1,114
48	Commercial banks	5,831	5,619	5,800	5,756	5,676	5,624	5,774	5,918
49	Certified and officers' checks	7,135	6,434	7,394	6,622	7,704	6,273	6,386	6,376
50	*Time and savings deposits*[3]	*231,951*	*230,310*	*230,505*	*230,525*	*230,446*	*231,523*	*230,716*	*230,284*
	Individuals, partnerships, and corporations:								
51	Savings	91,008	91,038	91,301	91,394	91,515	92,038	92,084	92,318
52	Other	106,798	105,675	105,716	105,435	105,159	105,476	104,717	104,268
53	States and political subdivisions	19,252	19,336	19,435	19,581	19,773	19,990	20,080	20,096
54	Domestic interbank	5,520	5,306	5,265	5,352	5,358	5,410	5,323	5,176
55	Foreign governments, official institutions, etc.	8,019	7,626	7,436	7,472	7,352	7,293	7,178	7,078
56	Federal funds purchased, etc.[4]	69,736	69,469	66,037	65,134	59,636	67,003	65,753	68,169
	Borrowings from:								
57	F.R. Banks	0	11	621	449	315	58	705	50
58	Others	3,645	3,384	3,578	3,748	4,030	3,995	4,093	4,154
59	Other liabilities, etc.[5]	21,391	22,420	23,166	22,942	23,234	23,344	23,663	23,685
60	Total equity capital and subordinated notes/debentures[6]	41,450	41,582	41,550	41,679	41,890	41,872	41,750	41,722

1 Includes securities purchased under agreements to resell.
2 Federal agencies only.
3 Includes U.S. Govt. and foreign bank deposits not shown separately.
4 Includes securities sold under agreements to repurchase.
5 Includes minority interest in consolidated subsidiaries and deferred tax portion of reserves for loans.
6 Includes reserves for securities and contingency portion of reserves for loans.

1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1977 Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
1 **Total loans and investments**	**91,843**	**90,131**	**91,350**	**89,516**	**90,261**	**88,435**	**89,938**	**88,967**
Loans:								
2 *Federal funds sold* [1]	*2,238*	*1,765*	*2,406*	*3,382*	*4,024*	*2,608*	*3,125*	*2,852*
3 To commercial banks	1,611	737	1,305	2,260	3,052	1,664	1,925	1,694
To brokers and dealers involving—								
4 U.S. Treasury securities	285	538	461	345	375	302	568	308
5 Other securities	56	288	274	404	360	388	369	346
6 To others	286	202	366	373	237	254	263	504
7 *Other, gross*	*70,541*	*68,770*	*69,092*	*67,489*	*68,104*	*67,433*	*68,031*	*67,437*
8 Commercial and industrial	35,622	34,341	33,977	33,687	33,496	33,642	33,577	33,641
9 Agricultural	124	123	121	121	120	122	115	113
For purchasing or carrying securities:								
To brokers and dealers:								
10 U.S. Treasury securities	1,590	1,583	1,815	1,142	1,313	1,192	1,071	1,097
11 Other securities	4,064	4,185	4,747	4,323	4,614	4,435	4,912	4,291
To others:								
12 U.S. Treasury securities	18	14	12	12	12	13	13	13
13 Other securities	382	392	388	388	384	382	378	374
To nonbank financial institutions:								
14 Personal and sales finance cos., etc.	2,554	2,264	2,264	2,271	2,357	2,357	2,315	2,314
15 Other	5,511	5,410	5,389	5,519	5,376	5,354	5,317	5,262
16 Real estate	8,991	8,965	8,955	8,955	8,934	8,923	8,991	8,990
To commercial banks:								
17 Domestic	608	537	609	644	679	471	553	602
18 Foreign	2,794	2,693	2,678	2,549	2,629	2,429	2,629	2,670
19 Consumer instalment	4,075	4,069	4,055	4,047	4,042	4,034	4,037	4,040
20 Foreign governments, official institutions, etc.	522	528	425	472	505	470	474	459
21 All other loans	3,686	3,666	3,657	3,359	3,643	3,609	3,649	3,571
22 LESS: Loan loss reserve and unearned income on loans	1,645	1,639	1,641	1,632	1,655	1,660	1,685	1,687
23 *Other loans, net*	*68,896*	*67,131*	*67,451*	*65,857*	*66,449*	*65,773*	*66,346*	*65,750*
Investments:								
24 *U.S. Treasury securities*	*11,462*	*11,990*	*12,304*	*11,278*	*11,227*	*11,494*	*11,836*	*11,798*
25 Bills	3,085	3,398	3,855	3,176	3,121	3,128	2,917	2,985
Notes and bonds, by maturity:								
26 Within 1 year	688	723	728	722	690	742	639	657
27 1 to 5 years	6,529	6,696	6,634	6,414	6,475	6,783	7,273	7,309
28 After 5 years	1,160	1,173	1,087	966	941	841	1,007	847
29 *Other securities*	*9,247*	*9,245*	*9,189*	*8,999*	*8,561*	*8,560*	*8,631*	*8,567*
Obligations of States and political subdivisions:								
30 Tax warrants, short-term notes, and bills	1,223	1,205	1,177	1,178	840	926	929	909
31 All other	6,095	6,238	6,212	6,112	6,001	5,967	6,019	6,040
Other bonds, corporate stocks, and securities:								
32 Certificates of participation [2]	223	223	222	222	220	235	221	222
33 All other, including corporate stocks	1,706	1,579	1,578	1,487	1,500	1,432	1,462	1,396
34 Cash items in process of collection	12,836	12,865	13,450	12,589	12,582	11,210	11,725	12,475
35 Reserves with F.R. Banks	8,229	7,844	5,782	6,097	3,998	7,556	6,373	6,080
36 Currency and coin	809	831	803	816	767	775	784	803
37 Balances with domestic banks	5,995	5,862	5,534	5,793	5,478	4,760	5,528	5,267
38 Investments in subsidiaries not consolidated	1,107	1,138	1,152	1,148	1,158	1,166	1,167	1,173
39 Other assets	17,011	19,066	18,000	18,144	18,095	19,019	17,450	17,262
40 **Total assets/total liabilities**	**137,830**	**137,737**	**136,071**	**134,103**	**132,339**	**132,921**	**132,965**	**132,027**
Deposits:								
41 *Demand deposits*	*52,594*	*51,504*	*50,540*	*49,275*	*50,085*	*46,228*	*47,074*	*47,879*
42 Individuals, partnerships, and corporations	29,479	28,279	28,418	26,426	27,344	27,566	26,960	27,325
43 States and political subdivisions	578	511	585	598	713	676	629	620
44 U.S. Govt.	511	285	507	357	109	131	294	180
Domestic interbank:								
45 Commercial	12,971	13,696	11,167	12,552	12,129	9,450	10,636	10,866
46 Mutual savings	586	538	475	475	519	426	406	401
Foreign:								
47 Governments, official institutions, etc.	1,098	1,084	988	986	889	635	579	870
48 Commercial banks	4,380	4,274	4,519	4,443	4,432	4,231	4,517	4,599
49 Certified and officers' checks	2,991	2,837	3,881	3,438	3,950	3,113	3,053	3,018
50 *Time and savings deposits* [3]	*42,401*	*41,912*	*42,275*	*42,390*	*42,611*	*42,844*	*42,371*	*41,955*
Individuals, partnerships, and corporations:								
51 Savings	10,149	10,241	10,299	10,349	10,408	10,548	10,602	10,609
52 Other	23,926	23,688	23,954	23,802	23,883	23,877	23,410	23,090
53 States and political subdivisions	1,080	1,047	1,064	1,107	1,073	1,127	1,208	1,220
54 Domestic interbank	2,192	2,095	2,132	2,234	2,344	2,390	2,306	2,227
55 Foreign governments, official institutions, etc.	4,328	4,109	4,082	4,162	4,174	4,153	4,105	4,065
56 Federal funds purchased, etc. [4]	20,609	21,073	18,933	18,374	15,225	19,373	18,070	17,502
Borrowings from:								
57 F.R. Banks	0	0	200	0	285	0	685	50
58 Others	1,772	1,519	1,632	1,813	2,094	2,125	2,184	2,178
59 Other liabilities, etc. [5]	8,612	9,875	10,636	10,384	10,142	10,472	10,683	10,559
60 Total equity capital and subordinated notes/debentures [6]	11,842	11,854	11,855	11,867	11,897	11,879	11,898	11,904

1 Includes securities purchased under agreements to resell.
2 Federal agencies only.
3 Includes U.S. Govt. and foreign bank deposits not shown separately.
4 Includes securities sold under agreements to repurchase.
5 Includes minority interest in consolidated subsidiaries and deferred tax portion of reserves for loans.
6 Includes reserves for securities and contingency portion of reserves for loans.

1.29 LARGE WEEKLY REPORTING COMMERCIAL BANKS OUTSIDE NEW YORK CITY
Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1977							
	Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
1 **Total loans and investments**	**323,804**	**323,041**	**319,226**	**314,834**	**317,450**	**316,261**	**318,258**	**317,983**
Loans:								
2 *Federal funds sold*[1]	*22,478*	*22,486*	*20,249*	*16,825*	*18,798*	*17,474*	*18,186*	*18,551*
3 To commercial banks	18,548	17,816	16,371	13,972	13,974	14,242	14,931	15,518
To brokers and dealers involving—								
4 U.S. Treasury securities	2,220	2,655	2,568	1,713	2,430	1,921	1,968	1,778
5 Other securities	940	1,029	542	488	611	439	542	731
6 To others	770	986	768	652	1,783	872	745	524
7 *Other, gross*	*218,035*	*217,206*	*217,277*	*216,589*	*217,928*	*217,365*	*217,937*	*217,715*
8 Commercial and industrial	81,274	81,096	81,159	80,735	81,275	81,198	81,450	81,698
9 Agricultural	4,180	4,177	4,151	4,100	4,063	4,065	4,059	4,052
For purchasing or carrying securities:								
To brokers and dealers:								
10 U.S. Treasury securities	165	159	167	171	210	225	186	181
11 Other securities	3,464	3,372	3,295	3,236	3,461	3,397	3,563	3,291
To others:								
12 U.S. Treasury securities	65	66	64	62	63	62	64	63
13 Other securities	2,151	2,139	2,138	2,144	2,156	2,158	2,142	2,142
To nonbank financial institutions:								
14 Personal and sales finance cos., etc.	4,840	4,747	4,672	4,614	4,755	4,714	4,687	4,664
15 Other	11,075	10,886	10,765	10,721	10,776	10,774	10,685	10,584
16 Real estate	54,699	54,788	54,953	55,011	55,011	55,195	55,374	55,423
To commercial banks:								
17 Domestic	1,205	1,196	1,172	1,239	1,324	1,231	1,224	1,188
18 Foreign	3,248	3,176	3,266	3,241	3,256	3,243	3,286	3,199
19 Consumer instalment	35,558	35,514	35,425	35,500	35,509	35,438	35,507	35,511
20 Foreign governments, official institutions, etc.	1,417	1,463	1,447	1,428	1,447	1,427	1,410	1,398
21 All other loans	14,694	14,427	14,603	14,387	14,622	14,238	14,300	14,321
22 LESS: Loan reserve and unearned income on loans	6,891	6,892	6,910	6,923	6,906	6,953	6,988	6,999
23 *Other loans, net*	*211,144*	*210,314*	*210,367*	*209,666*	*211,022*	*210,412*	*210,949*	*210,716*
Investments:								
24 *U.S. Treasury securities*	*38,576*	*38,343*	*37,318*	*36,907*	*36,388*	*36,653*	*37,437*	*37,024*
25 Bills	10,636	10,089	8,996	8,660	8,000	7,865	7,666	7,296
Notes and bonds, by maturity:								
26 Within 1 year	6,535	6,482	6,527	6,547	6,887	6,912	7,042	7,148
27 1 to 5 years	18,433	18,611	18,619	18,469	18,156	18,729	19,641	19,476
28 After 5 years	2,972	3,161	3,176	3,231	3,345	3,147	3,088	3,104
29 *Other securities*	*51,606*	*51,898*	*51,292*	*51,436*	*51,242*	*51,722*	*51,686*	*51,692*
Obligations of States and political subdivisions:								
30 Tax warrants, short-term notes, and bills	5,046	5,397	5,147	5,174	5,169	5,559	5,367	5,311
31 All other	34,260	34,227	34,112	34,133	33,999	34,147	34,158	34,269
Other bonds, corporate stocks, and securities:								
32 Certificates of participation[2]	2,028	2,016	1,931	1,995	2,024	1,983	1,961	1,956
33 All other, including corporate stocks	10,272	10,258	10,102	10,134	10,050	10,033	10,200	10,156
34 Cash items in process of collection	27,097	23,814	23,342	22,114	24,362	20,466	23,627	25,861
35 Reserves with F. R. Banks	16,100	13,523	15,202	15,797	12,201	15,473	14,587	15,302
36 Currency and coin	4,947	5,077	4,976	4,943	4,506	4,490	4,675	4,831
37 Balances with domestic banks	7,934	7,441	6,858	6,255	6,996	6,162	6,543	7,041
38 Investments in subsidiaries not consolidated	1,295	1,303	1,319	1,323	1,332	1,369	1,348	1,338
39 Other assets	33,828	33,482	32,716	32,557	33,060	32,800	32,334	33,216
40 **Total assets/total liabilities**	**415,005**	**407,681**	**403,639**	**397,823**	**399,907**	**397,021**	**401,372**	**405,572**
Deposits:								
41 *Demand deposits*	*132,068*	*126,738*	*123,713*	*118,174*	*122,610*	*115,919*	*120,583*	*121,656*
42 Individuals, partnerships, and corporations	102,503	100,396	97,488	94,186	96,327	92,489	94,995	95,406
43 States and political subdivisions	5,819	5,459	5,806	5,399	6,103	5,370	5,518	5,558
44 U.S. Govt.	2,210	1,645	2,570	1,713	1,358	1,124	1,712	1,530
Domestic interbank:								
45 Commercial	15,122	13,632	12,353	11,740	13,109	11,779	13,158	13,852
46 Mutual savings	454	404	414	361	432	370	396	389
Foreign:								
47 Governments, official institutions, etc.	365	260	288	278	283	234	214	244
48 Commercial banks	1,451	1,345	1,281	1,313	1,244	1,393	1,257	1,319
49 Certified and officers' checks	4,144	3,597	3,513	3,184	3,754	3,160	3,333	3,358
50 *Time and savings deposits*[3]	*189,550*	*188,398*	*188,230*	*188,135*	*187,835*	*188,679*	*188,345*	*188,329*
Individuals, partnerships, and corporations:								
51 Savings	80,859	80,797	81,002	81,045	81,107	81,490	81,482	81,709
52 Other	82,872	81,987	81,762	81,633	81,276	81,599	81,307	81,178
53 States and political subdivisions	18,172	18,289	18,371	18,474	18,700	18,863	18,872	18,876
54 Domestic interbank	3,328	3,211	3,133	3,118	3,014	3,020	3,017	2,949
55 Foreign governments, official institutions, etc.	3,691	3,517	3,354	3,310	3,178	3,140	3,073	3,013
56 Federal funds purchased, etc.[4]	49,127	48,396	47,104	46,760	44,411	47,630	47,683	50,667
Borrowings from:								
57 F. R. Banks	0	11	421	449	30	58	20	0
58 Others	1,873	1,865	1,946	1,935	1,936	1,870	1,909	1,976
59 Other liabilities, etc.[5]	12,779	12,545	12,530	12,558	13,092	12,872	12,980	13,126
60 Total equity capital and subordinated notes/debentures[6]	29,608	29,728	29,695	29,812	29,993	29,993	29,852	29,818

1 Includes securities purchased under agreements to resell.

2 Federal agencies only.

3 Includes U.S. Govt. and foreign bank deposits not shown separately.

4 Includes securities sold under agreements to repurchase.

5 Includes minority interest in consolidated subsidiaries and deferred tax portion of reserves for loans.

6 Includes reserves for securities and contingency portion of reserves for loans.

1.30 LARGE WEEKLY REPORTING COMMERCIAL BANKS Balance Sheet Memoranda

Millions of dollars, Wednesday figures

	Account and bank group	1977							
		Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
	Total loans (gross) and investments, adjusted[1]								
1	*Large banks*	*402,211*	*401,417*	*399,670*	*394,790*	*397,243*	*395,701*	*398,236*	*396,634*
2	New York City banks	91,269	90,496	91,077	88,244	88,185	87,960	89,145	88,358
3	Banks outside New York City	310,942	310,921	308,593	306,546	309,058	307,741	309,091	308,276
	Total loans (gross), adjusted								
4	*Large banks*	*291,320*	*289,941*	*289,567*	*286,170*	*289,825*	*287,272*	*288,646*	*287,553*
5	New York City banks	70,560	69,261	69,584	67,967	68,397	67,906	68,678	67,993
6	Banks outside New York City	220,760	220,680	219,983	218,203	221,428	219,366	219,968	219,560
	Demand deposits, adjusted[2]								
7	*Large banks*	*113,915*	*112,305*	*110,864*	*106,384*	*109,046*	*107,987*	*106,505*	*104,771*
8	New York City banks	26,276	24,658	25,416	23,777	25,265	25,437	24,419	24,358
9	Banks outside New York City	87,639	87,647	85,448	82,607	83,781	82,550	82,086	80,413
	Large negotiable time CD's included in time and savings deposits[3]								
	Total:								
10	**Large banks**	**64,593**	**62,803**	**62,500**	**62,162**	**61,739**	**62,148**	**61,196**	**60,481**
11	New York City	22,264	21,770	22,016	22,052	22,069	22,155	21,639	21,184
12	Banks outside New York City	42,329	41,033	40,484	40,110	39,670	39,993	39,557	39,297
	Issued to IPC's:								
13	*Large banks*	*42,899*	*41,656*	*41,538*	*41,019*	*40,623*	*40,737*	*39,883*	*39,436*
14	New York City Banks	15,297	15,120	15,331	15,144	15,145	15,170	14,706	14,384
15	Banks outside New York City	27,602	26,536	26,207	25,875	25,478	25,567	25,177	25,052
	Issued to others:								
16	*Large banks*	*21,694*	*21,147*	*20,962*	*21,143*	*21,116*	*21,411*	*21,313*	*21,045*
17	New York City banks	6,967	6,650	6,685	6,908	6,924	6,985	6,933	6,800
18	Banks outside New York City	14,727	14,497	14,277	14,235	14,192	14,426	14,380	14,245
	All other large time deposits[4]								
	Total:								
19	**Large banks**	**26,108**	**25,955**	**25,922**	**25,995**	**26,101**	**26,101**	**26,079**	**26,160**
20	New York City banks	5,295	5,205	5,197	5,176	5,311	5,289	5,247	5,287
21	Banks outside New York City	20,813	20,750	20,725	20,819	20,790	20,812	20,832	20,873
	Issued to IPC's:								
22	*Large banks*	*14,443*	*14,253*	*14,151*	*14,214*	*14,179*	*14,239*	*14,223*	*14,255*
23	New York City banks	3,991	3,924	3,915	3,910	3,950	3,898	3,876	3,888
24	Banks outside New York City	10,452	10,329	10,236	10,304	10,229	10,341	10,347	10,367
	Issued to others:								
25	*Large banks*	*11,665*	*11,702*	*11,771*	*11,781*	*11,922*	*11,862*	*11,856*	*11,905*
26	New York City banks	1,304	1,281	1,282	1,266	1,361	1,391	1,371	1,399
27	Banks outside New York City	10,361	10,421	10,489	10,515	10,561	10,471	10,485	10,506
	Savings deposits, by ownership category								
	Individuals and nonprofit organizations:								
28	*Large banks*	*83,312*	*83,753*	*83,992*	*84,117*	*84,240*	*84,600*	*84,640*	*84,837*
29	New York City banks	9,293	9,381	9,402	9,433	9,436	9,511	9,567	9,587
30	Banks outside New York City	74,019	74,372	74,590	74,684	74,804	75,089	75,073	75,250
	Partnerships and corporations for profit:[5]								
31	*Large banks*	*4,444*	*4,515*	*4,556*	*4,621*	*4,634*	*4,737*	*4,732*	*4,790*
32	New York City banks	455	470	476	486	490	509	515	524
33	Banks outside New York City	3,989	4,045	4,080	4,135	4,144	4,228	4,217	4,266
	Domestic governmental units:								
34	*Large banks*	*3,150*	*2,689*	*2,656*	*2,552*	*2,542*	*2,565*	*2,607*	*2,608*
35	New York City banks	317	332	349	351	403	418	442	439
36	Banks outside New York City	2,833	2,357	2,307	2,201	2,139	2,147	2,165	2,169
	All other:[6]								
37	*Large banks*	*102*	*81*	*97*	*104*	*99*	*136*	*105*	*83*
38	New York City banks	84	58	72	79	79	110	78	59
39	Banks outside New York City	18	23	25	25	20	26	27	24
	Gross liabilities of banks to their foreign branches								
40	*Large banks*	*4,503*	*4,595*	*4,513*	*3,967*	*3,221*	*2,671*	*3,036*	*3,831*
41	New York City banks	3,484	3,570	3,577	2,906	2,270	1,722	2,009	2,930
42	Banks outside New York City	1,019	1,025	936	1,061	951	949	1,027	901
	Loans sold outright to selected institutions by all large banks[7]								
43	Commercial and industrial[r]	2,506	2,518	2,562	2,615	2,547	2,546	2,554	2,612
44	Real estate	216	216	216	215	214	212	211	212
45	All other	1,184	1,186	1,173	1,167	1,165	1,137	1,096	1,118

1 Exclusive of loans and Federal funds transactions with domestic commercial banks.

2 All demand deposits except U.S. Govt. and domestic commercial banks, less cash items in process of collection.

3 Certificates of deposit (CD's) issued in denominations of $100,000 or more.

4 All other time deposits issued in denominations of $100,000 or more (not included in large negotiable CD's).

5 Other than commercial banks.

6 Domestic and foreign commercial banks, and official international organizations.

7 To 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.

1.31 LARGE WEEKLY REPORTING COMMERCIAL BANKS Commercial and Industrial Loans

Millions of dollars

Industry group	Outstanding					Net change during				
	1977					1976			1977	
	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23	Q3	Q4	Dec.	Jan.	Feb.
	Total loans classified[2]									
1 **Total**	**94,510**	**94,597**	**94,663**	**94,841**	**95,058**	**−641**	**4,048**	**1,543**	**−2,051**	**548**
Durable goods manufacturing:										
2 Primary metals	2,389	2,460	2,474	2,471	2,523	−36	138	104	191	134
3 Machinery	4,586	4,589	4,639	4,643	4,629	−417	41	38	−70	43
4 Transportation equipment	2,210	2,207	2,203	2,219	2,198	−252	−196	55	−22	−12
5 Other fabricated metal products	1,698	1,733	1,747	1,764	1,779	−56	24	2	−13	81
6 Other durable goods	3,107	3,134	3,154	3,189	3,203	−109	−249	−114	−138	96
Nondurable goods manufacturing:										
7 Food, liquor, and tobacco	3,412	3,386	3,365	3,347	3,357	3	134	92	−100	−55
8 Textiles, apparel, and leather	3,117	3,119	3,209	3,199	3,240	178	−503	−258	125	123
9 Petroleum refining	2,639	2,538	2,513	2,526	2,514	217	121	134	4	−125
10 Chemicals and rubber	2,545	2,538	2,522	2,547	2,570	41	33	20	−9	25
11 Other nondurable goods	1,899	1,871	1,882	1,914	1,941	−34	16	−36	11	42
12 Mining, including crude petroleum and natural gas	7,405	7,349	7,370	7,441	7,416	229	354	74	130	11
Trade:										
13 *Commodity dealers*	*1,912*	*2,010*	*2,194*	*2,161*	2,092	*−212*	377	−5	−8	*180*
14 Other wholesale	6,208	6,286	6,320	6,297	6,331	189	227	49	−49	123
15 Retail	6,101	6,144	6,197	6,193	6,158	19	−242	−593	22	57
16 Transportation	5,042	5,126	5,164	5,175	5,173	−496	121	183	−262	131
17 Communication	1,411	1,503	1,486	1,604	1,595	−263	−131	−36	51	184
18 Other public utilities	5,613	5,659	5,576	5,699	5,697	−526	−98	63	−6	84
19 Construction	3,861	3,895	3,905	3,908	3,924	−51	−283	−141	−34	63
20 Services	10,798	10,857	10,828	10,792	10,832	−174	150	118	234	34
21 All other domestic loans	7,504	7,564	7,468	7,548	7,496	385	567	110	−394	−8
22 Bankers acceptances	5,062	4,543	4,373	4,203	4,388	629	3,286	1,372	−1,772	−674
23 Foreign commercial and industrial loans	5,991	6,086	6,074	6,001	6,002	95	161	312	58	11
MEMO:										
24 Commercial paper included in total classified loans[1]	376	....	....	....	365	−142	115	109	−80	−11
25 Total commercial and industrial loans of all large weekly reporting banks	114,422	114,771	114,840	115,025	115,339	−391	4,098	1,475	−1,991	917
	1976			1977		1976			1977	
	Oct. 27	Nov. 24	Dec. 29	Jan. 26	Feb. 23	Q3	Q4	Dec.	Jan.	Feb.
	"Term" loans classified[3]									
26 **Total**	**44,462**	**44,823**	**45,211**	**45,291**	**45,735**	**−545**	**439**	**388**	**80**	**444**
Durable goods manufacturing:										
27 Primary metals	1,191	1,253	1,317	1,449	1,481	−27	103	64	132	32
28 Machinery	2,592	2,637	2,585	2,587	2,551	−354	−90	−52	2	−36
29 Transportation equipment	1,315	1,303	1,352	1,365	1,298	−124	−29	49	13	−67
30 Other fabricated metal products	747	777	776	767	815	−43	20	−1	−9	48
31 Other durable goods	1,668	1,655	1,624	1,549	1,585	−79	−112	−31	−75	36
Nondurable goods manufacturing:										
32 Food, liquor, and tobacco	1,425	1,392	1,398	1,449	1,447	32	−37	6	51	−2
33 Textiles, apparel, and leather	1,125	1,118	1,098	1,033	1,036	28	−46	−20	65	3
34 Petroleum refining	1,931	1,864	1,971	1,925	1,901	201	63	107	−46	−24
35 Chemicals and rubber	1,486	1,449	1,444	1,456	1,522	−2	−20	−5	12	66
36 Other nondurable goods	930	950	955	975	987	−51	20	5	20	12
37 Mining, including crude petroleum *and natural gas*	5,514	5,517	5,683	5,793	5,761	122	341	166	110	−32
Trade:										
38 Commodity dealers	220	218	200	227	219	2	−9	−18	27	−8
39 Other wholesale	1,400	1,474	1,463	1,483	1,478	86	69	−11	20	−5
40 *Retail*	2,173	2,249	2,045	2,085	2,209	102	−89	−204	40	*124*
41 Transportation	3,883	3,809	3,938	3,720	3,833	−303	4	129	−218	113
42 Communication	910	913	847	810	829	−87	−56	−66	−37	19
43 Other public utilities	3,523	3,549	3,664	3,762	3,869	−304	60	115	98	107
44 Construction	1,708	1,669	1,629	1,638	1,683	−48	−67	−40	9	45
45 Services	4,886	5,151	4,998	5,212	5,216	−130	31	−153	214	4
46 All other domestic loans	2,447	2,567	2,600	2,383	2,352	69	181	33	−217	40
47 Foreign commercial and industrial loans	3,388	3,309	3,624	3,623	3,663	365	102	315	−1	−31

1 Reported for the last Wednesday of each month.
2 Includes "term" loans, shown below.
3 Outstanding loans with an original maturity of more than 1 year and all outstanding loans granted under a formal agreement—revolving credit or standby—on which the original maturity of the commitment was in excess of 1 year.

1.32 GROSS DEMAND DEPOSITS of Individuals, Partnerships, and Corporations

Billions of dollars; estimated daily-average balances

Type of holder	All commercial banks									
	1972 Dec.	1973 Dec.	1974 Dec.	1975		1976				1977
				Sept.	Dec.	Mar.	June	Sept.	Dec.	Jan.
1 **All holders, IPC**	**208.0**	**220.1**	**225.0**	**227.0**	**236.9**	**227.9**	**234.2**	**236.1**	**250.1**	....
2 Financial business	18.9	19.1	19.0	19.0	20.1	19.9	20.3	19.7	22.3	....
3 Nonfinancial business	109.9	116.2	118.8	118.7	125.1	116.9	121.2	122.6	130.2	....
4 Consumer	65.4	70.1	73.3	76.5	78.0	77.2	78.8	80.0	82.6	....
5 Foreign	1.5	2.4	2.3	2.2	2.4	2.4	2.5	2.3	2.7	....
6 Other	12.3	12.4	11.7	10.6	11.3	11.4	11.4	11.5	12.4	....
	All weekly reporting banks									
	1973 Dec.	1974 Dec.	1975 Dec.	1976						1977
				July	Aug.	Sept.r	Oct.	Nov.	Dec.	Jan.p
7 **All holders, IPC**	**118.1**	**119.7**	**124.4**	**122.5**	**112.9**	**121.4**	**123.8**	**124.3**	**128.5**	**127.4**
8 Financial business	14.9	14.8	15.6	16.3	15.0	15.4	16.8	16.2	17.5	16.7
9 Nonfinancial business	66.2	66.9	69.9	64.8	61.4	66.6	68.4	68.7	69.7	69.5
10 Consumer	28.0	29.0	29.9	33.3	29.2	30.7	29.6	30.4	31.7	32.0
11 Foreign	2.2	2.2	2.3	2.3	1.8	2.2	2.4	2.5	2.6	2.2
12 Other	6.8	6.8	6.6	5.8	5.6	6.6	6.6	6.6	7.1	7.1

NOTE.—*Figures include cash items in process of collection.* Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 BULLETIN, p. 466.

1.33 COMMERCIAL PAPER AND BANKERS ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1974 Dec.	1975 Dec.	1976 Dec.	1976						1977
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 **Commercial paper, all issuers**	**49,144**	**47,690**	**52,011**	**51,138**	**59,063**	**49,814**	**51,334**	**53,080**	**52,011**	**53,926**
Financial companies:[1]										
Dealer-placed paper:[2]										
2 Total	4,611	6,239	7,294	6,187	6,243	6,347	6,674	7,113	7,294	7,347
3 Bank-related	1,814	1,762	1,930	1,655	1,650	1,681	1,739	1,860	1,930	1,895
Directly-placed paper:[3]										
4 Total	31,839	31,276	32,386	32,513	31,500	31,438	31,844	32,655	32,386	32,774
5 Bank-related	6,518	6,892	5,928	5,936	5,938	6,213	5,828	r5,908	5,928	5,637
6 Nonfinancial companies[4]	12,694	10,175	12,331	12,438	12,320	12,029	12,816	13,312	12,331	13,805
7 **Dollar acceptances, total**	**18,484**	**18,727**	**22,523**	**19,544**	**19,383**	**19,599**	**20,312**	**20,678**	**22,523**	**22,362**
Held by:										
8 *Accepting banks*	*4,226*	*7,333*	10,442	*r5,905*	*6,107*	*6,798*	*7,959*	*9,031*	*10,442*	*8,183*
9 Own bills	3,685	5,899	8,769	5,255	5,449	5,865	6,789	7,706	8,769	7,011
10 Bills bought	542	1,435	1,673	r650	658	933	1,170	1,325	1,673	1,172
F.R. Banks:										
11 Own account	999	1,126	991	656	808	838	337	188	991	191
12 Foreign correspondents	1,109	293	375	447	442	417	387	349	375	374
13 Others	12,150	9,975	13,447	12,968	12,026	12,299	11,629	12,184	13,447	14,747
Based on:										
14 Imports into United States	4,023	3,726	4,992	4,611	4,530	4,498	4,737	4,667	4,992	4,992
15 Exports from United States	4,067	4,001	4,818	4,327	4,355	4,420	4,715	4,628	4,818	5,137
16 All other	10,394	11,000	12,713	10,606	10,498	10,680	10,860	11,383	12,713	12,233

1 Institutions engaged primarily in activities such as, but not limited to, commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.

2 Includes all financial company paper sold by dealers in the open market.

3 As reported by financial companies that place their paper directly with investors.

4 Includes public utilities and firms engaged primarily in activities such as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.

1.34 PRIME RATE CHARGED BY BANKS on Short-term Business Loans

Per cent per annum

Effective date	Rate	Effective date	Rate	Month	Average rate
1975—Jan. 9	10¼	1975—Aug. 12	7¾	1975—Aug.	7.66
15	10	Sept. 15	8	Sept.	7.88
20	9¾	Oct. 27	7¾	Oct.	7.96
28	9½	Nov. 5	7½	Nov.	7.53
Feb. 3	9¼	Dec. 2	7¼	Dec.	7.26
10	9	1976—Jan. 12	7	1976—Jan.	7.00
18	8¾	21	6¾	Feb.	6.75
24	8½	June 1	7	Mar.	6.75
Mar. 5	8¼	7	7¼	Apr.	6.75
10	8	Aug. 2	7	May	6.75
18	7¾	Oct. 4	6¾	June	7.20
24	7½	Nov. 1	6½	July	7.25
May 20	7¼	Dec. 13	6¼	Aug.	7.01
June 9	7			Sept.	7.00
July 18	7¼			Oct.	6.78
28	7½			Nov.	6.50
				Dec.	6.35
				1977—Jan.	6.25
				Feb.	6.25

1.35 INTEREST RATES CHARGED BY BANKS on Business Loans

Per cent per annum

Center	All sizes		Size of loan (in thousands of dollars) 1–9		10–99		100–499		500–999		1,000 and over	
	1976 Nov.	1976 Aug.	1976 Nov.	1976 Aug.	1976 Nov.	1976 Aug.	1976 Nov.	1976 Aug.	1976 Nov.	1976 Aug.	1976 Nov.	1976 Aug.
	Short-term rates											
1 **All 35 centers**	**7.28**	**7.80**	**8.83**	**9.06**	**8.18**	**8.58**	**7.66**	**7.99**	**7.31**	**7.84**	**7.02**	**7.61**
2 New York City	6.88	7.48	8.56	8.85	7.94	8.40	7.43	7.91	7.24	7.77	6.74	7.36
3 7 Other Northeast	7.62	8.18	9.22	9.41	8.34	8.84	7.88	8.25	7.49	8.16	7.34	7.98
4 8 North Central	7.28	7.70	8.45	8.65	8.12	8.50	7.69	7.85	7.36	7.71	7.03	7.55
5 7 Southeast	7.51	7.95	9.13	9.33	8.48	8.76	7.71	8.00	7.04	7.85	7.07	7.54
6 8 Southwest	7.33	7.75	8.51	8.83	7.82	8.24	7.39	7.80	7.21	7.61	7.12	7.55
7 4 West Coast	7.52	8.15	8.69	9.26	8.46	8.79	7.88	8.28	7.44	8.06	7.34	8.05
	Revolving credit rates											
8 **All 35 centers**	**7.19**	**7.87**	**8.37**	**8.70**	**8.14**	**8.33**	**7.60**	**8.02**	**7.41**	**7.80**	**7.12**	**7.88**
9 New York City	7.18	8.14	7.23	7.25	7.86	8.26	7.21	7.70	6.97	7.56	7.19	8.19
10 7 Other Northeast	6.92	7.59	8.15	8.00	8.20	8.22	7.26	7.67	7.75	8.36	6.75	7.47
11 8 North Central	7.54	7.96	8.52	8.94	8.95	9.03	8.05	8.50	7.88	7.74	7.39	7.90
12 7 Southeast	7.05	7.48	8.31	8.75	8.09	8.40	7.56	8.16	6.77	....	6.83	7.13
13 8 Southwest	7.45	7.81	8.19	8.74	7.96	8.09	7.74	8.20	7.24	7.47	7.39	7.80
14 4 West Coast	7.11	7.73	8.77	9.10	7.85	8.08	7.58	7.95	7.45	7.91	7.01	7.68
	Long-term rates											
15 **All 35 centers**	**7.48**	**8.45**	**9.39**	**9.61**	**8.88**	**9.02**	**8.14**	**8.55**	**8.13**	**8.60**	**7.24**	**8.40**
16 New York City	7.36	8.52	7.19	....	8.55	8.27	7.93	8.05	8.06	8.44	7.26	8.56
17 7 Other Northeast	6.64	8.62	9.22	9.40	8.84	9.43	7.95	8.93	7.92	7.50	5.73	8.70
18 8 North Central	7.66	8.05	9.20	8.83	9.03	9.07	8.35	8.26	8.99	8.36	7.32	7.92
19 7 Southeast	7.59	8.88	9.87	9.60	9.35	9.08	7.93	9.88	4.00	8.18	7.79	8.06
20 8 Southwest	7.73	8.42	10.54	10.85	9.05	9.04	8.28	8.23	8.44	8.69	7.20	8.30
21 4 West Coast	8.04	8.67	8.70	9.28	8.54	8.58	8.31	8.81	7.78	10.00	8.03	8.46

NOTE.—Weighted-average rates based on sample of loans made during first 7 days of the survey month.

1.36 INTEREST RATES Money and Capital Markets

Averages, per cent per annum

	Instrument	1974	1975	1976	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.	1977, week ending Feb. 5	Feb. 12	Feb. 19	Feb. 26
	Money market rates											
	Prime commercial paper[1]											
1	90 to 119 day	10.05	6.26	5.24	4.98	4.66	4.72	4.76	4.80	4.75	4.75	4.75
2	4- to 6-month	9.87	6.33	5.35	5.05	4.70	4.74	4.82	4.88	4.80	4.78	4.84
3	Finance company paper, directly placed, 3- to 6-month[2]	8.62	6.16	5.22	4.92	4.56	4.64	4.75	4.75	4.75	4.75	4.75
4	Prime bankers acceptances, 90-day[3]	9.92	6.30	5.19	4.90	4.62	4.81	4.83	4.90	4.82	4.78	4.84
5	Federal funds[4]	10.51	5.82	5.05	4.95	4.65	4.61	4.68	4.60	4.66	4.70	4.74
	Large negotiable certificates of deposit											
6	3-month, secondary market[5]	10.27	6.43	5.26	5.00	4.67	4.82	4.65	4.91	4.75	4.78	4.82
7	3-month, primary market[6]	....	....	5.15	4.95	4.54	4.68	4.69	4.75	4.75	4.63	4.63
8	Euro-dollar deposits, 3-month[7]	10.96	6.97	5.57	5.29	5.01	5.14	5.08	4.85	4.87	4.85	4.83
	U.S. Govt. securities											
	Bills:[8]											
	Market yields:											
9	3-month	7.84	5.80	4.98	4.75	4.35	4.62	4.67	4.71	4.62	4.63	4.71
10	6-month	7.95	6.11	5.26	4.88	4.51	4.83	4.90	4.99	4.85	4.84	4.94
11	1-year	7.71	6.30	5.52	5.00	4.64	5.00	5.16	5.24	5.11	5.08	5.22
	Rates on new issue:											
12	3-month	7.886	5.838	4.989	4.810	4.354	4.597	4.662	4.720	4.625	4.633	4.668
13	6-month	7.926	6.122	5.266	4.944	4.513	4.783	4.896	5.008	4.840	4.862	4.872
	Notes and bonds maturing in—[9]											
14	9 to 12 months	8.25	6.70	5.84	5.29	4.92	5.34	5.50	5.62	5.46	5.43	5.52
15	3 to 5 years	7.81	7.55	6.94	6.35	5.96	6.49	6.69	6.78	6.64	6.60	6.76
	Constant maturities:[10]											
16	1-year	8.18	6.76	5.88	5.29	4.89	5.29	5.47	5.57	5.40	5.37	5.54
17	2-year	....	....	6.31	5.81	5.38	5.90	6.09	6.18	6.03	6.03	6.14
18	3-year	7.82	7.49	6.77	6.09	5.68	6.22	6.44	6.54	6.39	6.35	6.51
19	5-year	7.80	7.77	7.18	6.52	6.10	6.58	6.83	6.88	6.75	6.73	6.95
	Capital market rates											
	Government notes and bonds											
	U.S. Treasury:											
	Constant maturities:[10]											
20	7-year	7.71	7.90	7.43	6.86	6.37	6.92	7.16	7.17	7.12	7.13	7.24
21	10-year	7.56	7.99	7.61	7.29	6.87	7.21	7.39	7.40	7.35	7.35	7.47
22	20-year	8.05	8.19	7.86	7.64	7.30	7.48	7.64	7.63	7.60	7.61	7.71
23	Long-term[9]	6.99	6.98	6.78	6.62	6.39	6.68	7.15	7.15	7.12	7.12	7.18
	State and local:[11]											
	Moody's series:											
24	Aaa	5.89	6.42	5.66	5.27	5.07	5.10	5.17	5.17	5.17	5.15	5.20
25	Baa	6.53	7.62	7.49	7.16	6.73	6.58	6.50	6.55	6.50	6.47	6.47
26	*Bond Buyer* series[12]	6.17	7.05	6.64	6.29	5.94	5.87	5.89	5.93	5.86	5.83	5.92
	Corporate bonds											
	Seasoned issues[13]											
27	All industries	9.03	9.57	9.01	8.66	8.47	8.41	8.48	8.47	8.46	8.48	8.51
	By rating groups:											
28	Aaa	8.57	8.83	8.43	8.25	7.98	7.96	8.04	8.03	8.01	8.04	8.08
29	Aa	8.84	9.17	8.75	8.46	8.24	8.16	8.26	8.24	8.26	8.27	8.28
30	A	9.20	9.65	9.09	8.69	8.53	8.45	8.49	8.49	8.49	8.49	8.50
31	Baa	9.50	10.61	9.75	9.23	9.12	9.08	9.12	9.13	9.09	9.11	9.16
	Aaa utility bonds:[14]											
32	New issue	9.33	9.40	8.48	8.17	7.94	8.08	8.22	8.15	....	8.18	8.28
33	Recently offered issues	9.34	9.41	8.49	8.18	7.93	8.09	8.19	8.14	8.12	8.17	8.26
	Common stocks											
	Dividend price ratio:											
34	Preferred stocks	8.23	8.38	7.97	7.80	7.70	7.54	7.55	7.58	7.62	7.49	7.50
35	Common stocks	4.47	4.31	3.77	4.04	3.99	3.99	4.21	4.10	4.20	4.18	4.35

1 Averages of the most representative daily offering rate quoted by dealers.

2 Averages of the most representative daily offering rates published by finance companies for varying maturities in this range.

3 Beginning Aug. 15, 1974, the rate is the average of the midpoint of the range of daily dealer closing rates offered for domestic issues; prior data are averages of the most representative daily offering rate quoted by dealers.

4 Weekly figures are 7-day averages of daily effective rates for the week ending Wednesday; the daily effective rate is an average of the rates on a given day weighted by the volume of transactions at these rates.

5 Averages of the daily midpoints as determined from the range of offering rates in the secondary market.

6 *Posted rates, which are the annual interest rates most often quoted* on new offerings of negotiable CD's in denominations of $100,000 or more. Rates prior to 1976 not available. Weekly figures are for Wednesday dates.

7 Averages of daily quotations for the week ending Wednesday.

8 Except for new bill issues, yields are computed from daily closing bid prices. Yields for all bills are quoted on a bank-discount basis.

9 Unweighted averages for all outstanding notes and bonds in maturity ranges shown, based on daily closing bid prices. "Long-term" includes all bonds neither due nor callable in less than 10 years.

10 Yields on the more actively traded issues adjusted to constant maturities by the U.S. Treasury, based on daily closing bid prices.

11 General obligations only, based on figures for Thursday, from Moody's Investors Service.

12 Twenty issues of mixed quality.

13 Averages of daily figures from Moody's Investors Service.

14 Compilation of the Board of Governors of the Federal Reserve System.

Issues included are long-term (20 years or more). New-issue yields are based on quotations on date of offering; those on recently offered issues (included only for first 4 weeks after termination of underwriter price restrictions), on Friday close-of-business quotations.

1.37 STOCK MARKET Selected Statistics

	Indicator	1974	1975	1976	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.
	Prices and trading (averages of daily figures)										
	Common stock prices										
1	**New York Stock Exchange (Dec. 31, 1965 = 50)**	**43.84**	**45.73**	**54.45**	**55.06**	**56.30**	**54.43**	**54.17**	**56.34**	**56.28**	**54.93**
2	Industrial	48.08	51.88	60.44	61.09	62.34	60.07	59.45	61.54	61.26	59.65
3	Transportation	31.89	30.73	39.57	40.63	40.36	38.37	39.28	41.77	41.93	40.59
4	Utility	29.82	31.45	36.97	37.56	38.77	38.33	38.85	40.61	41.13	40.86
5	Finance	49.67	46.62	52.94	54.22	54.51	52.74	53.25	57.45	57.86	55.65
6	**Standard and Poor's Corporation (1941–43 = 10)**	**82.85**	**85.17**	**102.01**	**103.29**	**105.45**	**101.89**	**101.19**	**104.66**	**103.81**	**100.96**
7	**American Stock Exchange (Aug. 31, 1973 = 100)**	**79.97**	**83.15**	**101.63**	**102.79**	**102.92**	**98.99**	**99.20**	**104.06**	**111.04**	**112.17**
	Volume of trading (thousands of shares)[2]										
8	New York Stock Exchange	13,883	18,568	21,189	15,758	18,892	17,397	19,370	23,621	23,562	19,310
9	American Stock Exchange	1,908	2,150	2,565	1,605	1,902	1,700	2,211	3,095	3,268	2,830
	Customer financing (end-of-period balances, in millions of dollars)										
10	**Regulated margin credit at brokers/dealers and banks**[3]	**4,836**	**6,500**	**9,001**	**8,683**	**8,566**	**8,772**	**8,629**	**r8,995**	....	....
11	*Brokers, total*	*3,980*	*5,540*	*8,166*	*7,622*	*7,707*	*7,704*	*7,790*	*8,166*	*8,469*	....
12	Margin stock[4]	3,840	5,390	7,960	7,450	7,530	7,530	7,610	7,960	8,270	....
13	Convertible bonds	137	147	204	167	174	168	178	204	196	....
14	Subscription issues	3	3	2	5	3	6	2	2	3	....
15	*Banks, total*	*856*	*960*	*835*	*1,061*	*859*	*1,068*	*839*	r829	....	....
16	Margin stocks	815	909	790	1,008	813	1,019	790	r29	....	....
17	Convertible bonds	30	36	31	34	32	34	35	r2	....	....
18	Subscription issues	11	15	14	19	14	15	14	14	....	....
19	**Unregulated nonmargin stock credit at banks**[5]	**2,064**	**2,281**	**3,785**	**2,368**	**2,830**	**2,774**	**3,351**	**r3,784**	....	....
	MEMO: Free credit balances at brokers[6]										
20	Margin-account	410	475	585	555	555	611	615	585	645	....
21	Cash-account	1,425	1,525	1,855	1,605	1,710	1,580	1,740	1,855	1,930	....
	Margin-account debt at brokers (percentage distribution, end of period)										
22	**Total**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	....
	By equity class (in per cent):[7]										
23	Under 40	45.4	25.0	13.0	18.2	12.2	15.0	14.0	13.0	15.0	....
24	40–49	23.0	28.8	22.0	33.9	29.9	34.0	32.0	22.0	23.0	....
25	50–59	13.9	22.3	35.0	22.7	29.6	25.6	27.0	35.0	35.0	....
26	60–69	8.8	11.6	15.0	12.7	14.1	12.7	13.0	15.0	13.0	....
27	70–79	4.6	6.9	8.7	6.9	8.0	7.2	8.0	8.7	8.0	....
28	80 or more	4.3	5.3	6.0	5.7	6.3	5.7	6.0	6.0	6.0	....

Margin requirements[8] (per cent of market value) effective—

		Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
29	Margin stocks	70	80	65	55	65	50
30	Convertible bonds	50	60	50	50	50	50
31	Short sales	70	80	65	55	65	50

1 Effective July 1976 includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2 Based on trading for a 5½-hour day.

3 Margin credit includes all credit extended to purchase or carry stocks or related equity instruments and secured at least in part by stock. Credit extended by brokers is end-of-month data for member firms of the New York Stock Exchange; June data for banks are universe totals; all other data for banks are estimates for all commercial banks based on data from a sample of reporting banks.

In addition to assigning a current loan value to margin stock generally, Regulations T and U permit special loan values for convertible bonds and stock acquired through exercise of subscription rights.

4 A distribution of this total by equity class is shown below.

5 Nonmargin stocks are those not listed on a national securities exchange and not included on the Federal Reserve System's list of over-the-counter margin stocks. At banks, loans to purchase or carry nonmargin stocks are unregulated; at brokers, such stocks have no loan value.

6 Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

7 Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.

8 Regulations G, T, and U, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended. Margin requirements are the difference between the market value (100 per cent) and the maximum loan value. The term "margin stocks" is defined in the corresponding regulation.

Regulation G and special margin requirements for bonds convertible into stocks were adopted by the Board of Governors effective Mar. 11, 1968.

1.38 SAVINGS INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1974	1975	1976	1976 May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1977 Jan.
	Savings and loan associations											
1 **Assets**	**295,545**	**338,233**	**391,999**	**362,861**	**366,425**	**371,770**	**376,188**	**379,747**	**385,013**	**389,173**	**391,999**	**398,216**
2 Mortgages	249,301	278,590	323,130	294,492	299,296	303,527	307,766	311,847	315,742	319,273	323,130	326,056
3 Cash and investment securities[1]	23,251	30,853	35,660	36,938	35,258	35,968	35,815	35,209	36,442	36,605	35,660	38,223
4 Other	22,993	28,790	33,209	31,431	31,871	32,275	32,607	32,691	32,829	33,295	33,209	33,937
5 **Liabilities and net worth**	**295,545**	**338,233**	**391,999**	**362,861**	**366,425**	**371,770**	**376,188**	**379,747**	**385,013**	**389,173**	**391,999**	**398,216**
6 Savings capital	242,974	285,743	336,030	307,884	312,904	316,072	318,227	323,800	327,252	329,833	336,030	341,093
7 *Borrowed money*	*24,780*	*20,634*	*19,087*	*17,595*	*18,173*	*18,360*	*18,856*	*19,083*	*18,810*	*18,715*	*19,087*	*18,423*
8 FHLBB	21,508	17,524	15,708	14,898	15,016	15,139	15,495	15,832	15,636	15,571	15,708	14,999
9 Other	3,272	3,110	3,379	2,697	3,157	3,221	3,361	3,251	3,174	3,144	3,379	3,424
10 Loans in process	3,244	5,128	6,836	6,089	6,397	6,572	6,628	6,688	6,735	6,753	6,836	6,725
11 Other	6,105	6,949	8,015	10,592	8,176	9,756	11,197	8,779	10,531	11,918	8,015	9,727
12 Net worth[2]	18,442	19,779	22,031	20,702	20,775	21,010	21,280	21,398	21,685	21,954	22,031	22,248
MEMO:												
13 Mortgage loan commitments outstanding[3]	7,454	10,673	14,828	16,590	16,610	16,301	15,773	15,449	15,319	15,467	14,828	15,022
	Mutual savings banks											
14 **Assets**	**109,550**	**121,056**	....	**127,470**	**128,436**	**129,826**	**130,571**	**131,413**	**132,455**	**133,361**	....	....
Loans:												
15 Mortgage	74,891	77,221	....	78,286	78,803	79,398	79,781	80,145	80,543	80,884	....	....
16 Other	3,812	4,023	....	5,103	5,137	5,341	5,210	5,478	5,549	5,801	....	....
Securities:												
17 U.S. Govt.	2,555	4,740	....	5,660	5,635	5,640	5,733	5,851	5,796	5,836	....	....
18 State and local government	930	1,545	....	2,318	2,337	2,376	2,339	2,359	2,429	2,466	....	....
19 Corporate and other[4]	22,550	27,992	....	31,179	31,493	32,028	32,319	32,432	32,793	33,074	....	....
20 Cash	2,167	2,330	....	1,539	1,558	1,538	1,552	1,581	1,695	1,668	....	....
21 Other assets	2,645	3,205	....	3,385	3,470	3,505	3,576	3,567	3,649	3,632	....	....
22 **Liabilities**	**109,550**	**121,056**	....	**127,470**	**128,436**	**129,826**	**130,571**	**131,413**	**132,455**	**133,361**	....	....
23 *Deposits*	*98,701*	*109,873*	....	*115,521*	*116,876*	*117,883*	*118,225*	*119,590*	*120,360*	*120,971*	....	....
24 Regular[5]	98,221	109,291	....	114,761	115,985	116,895	117,203	118,510	119,346	120,125	....	....
25 Ordinary savings	64,286	69,653	....	72,156	72,763	73,223	72,872	73,484	73,610	73,857	....	....
26 Time and other	33,935	39,639	....	42,605	43,223	43,662	44,331	45,027	45,736	46,268	....	....
27 Other	480	582	....	760	890	988	1,022	1,080	1,014	846	....	....
28 Other liabilities	2,888	2,755	....	3,296	2,841	3,161	3,490	2,898	3,140	3,376	....	....
29 General reserve accounts	7,961	8,428	....	8,654	8,719	8,781	8,855	8,925	8,955	9,015	....	....
MEMO:												
30 Mortgage loan commitments outstanding[6]	2,040	1,803	....	2,426	2,402	2,433	2,459	2,671	2,548	2,553	....	....
	Life insurance companies											
31 **Assets**	**263,349**	**289,304**	**320,555**	**301,754**	**304,728**	**307,005**	**309,295**	**312,044**	**313,960**	**316,505**	**320,555**	....
Securities:												
32 *Government*	*10,900*	*13,758*	*17,270*	*15,975*	*15,947*	*16,672*	*16,902*	*16,862*	*17,329*	*17,565*	*17,270*	....
33 United States[7]	3,372	4,736	5,156	5,141	4,863	5,150	5,922	5,150	5,448	5,606	5,156	....
34 State and local	3,667	4,508	5,551	5,146	5,196	5,263	5,324	5,364	5,446	5,467	5,551	....
35 Foreign[8]	3,861	4,514	6,563	5,688	5,888	6,259	6,286	6,348	6,435	6,492	6,563	....
36 *Business*	*119,637*	*135,317*	*157,625*	*114,496*	*147,193*	*148,617*	*150,303*	*152,125*	*153,298*	*154,502*	*157,625*	....
37 Bonds	97,717	107,256	123,149	113,087	114,583	116,101	117,806	118,706	120,358	121,659	123,149	....
38 Stocks	21,920	28,061	34,476	31,409	32,610	32,516	32,497	33,419	32,940	32,843	34,476	....
39 Mortgages	86,234	89,167	91,581	89,529	89,691	89,753	89,891	90,217	90,323	90,808	91,581	....
40 Real estate	8,331	9,621	10,526	9,909	10,004	10,050	10,146	10,175	10,285	10,310	10,526	....
41 Policy loans	22,862	24,467	25,849	24,978	25,142	25,257	25,383	25,505	25,607	25,710	25,849	....
42 Other assets	15,385	16,971	17,704	16,867	16,751	16,656	16,670	17,160	17,118	17,610	17,704	....
	Credit unions											
43 **Total assets/liabilities and capital**	**31,948**	**38,037**	**44,897**	**41,025**	**41,884**	**41,729**	**42,266**	**43,079**	**43,415**	**44,204**	**44,897**	**45,618**
44 Federal	16,715	20,209	24,164	21,930	22,520	22,385	22,698	23,198	23,283	23,763	24,164	24,606
45 State	15,233	17,828	20,733	19,095	19,364	19,344	19,658	19,881	20,132	20,441	20,733	21,012
46 *Loans outstanding*	*24,432*	*28,169*	*34,033*	*30,115*	*31,089*	*31,555*	*32,300*	*33,093*	*33,275*	*33,365*	*34,033*	*34,517*
47 Federal	12,730	14,869	18,022	15,855	16,421	16,614	17,065	17,458	17,522	17,592	18,002	18,264
48 State	11,702	13,300	16,011	14,260	14,668	14,941	15,235	15,635	15,753	15,773	16,011	16,253
49 *Savings*	*27,518*	*33,013*	*39,264*	*35,894*	*36,675*	*36,615*	*36,752*	*37,436*	*37,854*	*38,650*	*39,264*	*39,664*
50 Federal (shares)	14,370	17,530	21,149	19,211	19,696	19,663	19,783	20,167	20,358	20,805	21,149	21,357
51 State (shares and deposits)	13,148	15,483	18,115	16,683	16,979	16,952	16,969	17,269	17,496	17,845	18,115	18,307

For notes see bottom of page A30.

1.39 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

	Type of account or operation	Fiscal year 1975	Fiscal year 1976	Transition quarter (July–Sept. 1976)	Calendar year 1975 H2	Calendar year 1976 H1	1976 H2	1976 Nov.	1976 Dec.	1977 Jan.
	U.S. Budget									
1	Receipts	280,997	300,005	81,773	139,455	r160,552	157,961	25,698	29,472	29,977
2	Outlays [1,2]	326,105	366,466	94,746	r185,097	r181,369	193,719	33,083	31,891	32,640
3	*Surplus, or deficit (–)*	*–45,108*	*–66,461*	*–12,973*	*r–45,642*	*r–20,816*	*–35,758*	*–7,385*	*–2,419*	*–2,664*
4	Trust funds	7,419	2,409	–1,952	–3,125	5,503	–4,621	328	1,737	2,344
5	Federal funds [3]	–52,526	–68,870	–11,021	–42,517	–26,320	–31,137	–7,713	–4,156	–321
	Off-budget entities surplus, or deficit (–)									
6	Federal Financing Bank outlays	–6,389	–5,915	–2,575	–2,693	–3,222	r–5,176	–301	–1,598	1,009
7	Other [1,4]	–1,652	–1,355	793	–236	–1,119	r3,869	–305	48	1,881
	U.S. Budget plus off-budget, including Federal Financing Bank									
8	*Surplus, or deficit (–)*	*–53,149*	*–73,731*	*–14,755*	*r–48,571*	*r–25,158*	*–37,125*	*–7,991*	*–3,969*	*–5,554*
	Financed by:									
9	Borrowing from the public [2]	50,867	82,922	18,027	r49,361	r33,561	35,457	6,738	6,306	3,157
10	Cash and monetary assets (decrease, or increase (–))	–320	–7,796	–2,899	2,046	r–7,909	2,153	4,308	–3,527	–1,583
11	Other [5]	2,602	–1,396	–373	1,256	r–495	–485	–3,055	1,189	3,980
	MEMO:									
12	*Treasury operating balance (level, end of period)*	*7,591*	*14,836*	*17,418*	*8,452*	*14,836*	*11,670*	*8,657*	*11,670*	*12,688*
13	F.R. Banks	5,773	11,975	13,299	7,286	11,975	10,393	6,766	10,393	11,397
14	Tax and loan accounts	1,475	2,854	4,119	1,159	2,854	1,277	1,891	1,277	1,292
15	Other demand accounts [6]	343	7	....	7	7	....	....	....	....

[1] Outlay totals reflect the reclassification of the Export-Import Bank from off-budget status to unified budget status.

[2] Export-Import Bank certificates of beneficial interest (effective July 1, 1975) and loans to Pefco are treated as debt rather than asset sales.

[3] *Half years calculated as a residual of total surplus/deficit and trust fund surplus/deficit.*

[4] Includes Pension Benefit Guaranty Corp., Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Housing for the Elderly or Handicapped Fund.

[5] Includes: Public debt accrued interest payable to the public; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seignorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; conversion of interest receipts of Government accounts to an accrual basis.

[6] Excludes the gold balance but includes deposits in certain commercial *depositories that have been converted from a time deposit to a demand deposit basis to permit greater flexibility in Treasury cash management.*

SOURCE.—"Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," *Treasury Bulletin*, and *U.S. Budget, Fiscal Year 1978.*

NOTES TO TABLE 1.38

[1] Stock of the Federal Home Loan Bank Board (FHLBB) is included in "other assets."

[2] Includes net undistributed income, which is accrued by most, but not all, associations.

[3] Excludes figures for loans in process, which are shown as a liability.

[4] Includes securities of foreign governments and international organizations and nonguaranteed issues of U.S. Govt. agencies.

[5] Excludes checking, club, and school accounts.

[6] Commitments outstanding (including loans in process) of banks in New York State as reported to the Savings Banks Assn. of the State of New York.

[7] Direct and guaranteed obligations. Excludes Federal agency issues not guaranteed, which are shown in this table under "business" securities.

[8] Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE.—*Savings and loan associations:* Estimates by the FHLBB for all associations in the United States. Data are based on monthly reports of Federally insured associations and annual reports of other associations. Even when revised, data for current and preceding year are subject to further revision.

Mutual savings banks: Estimates of National Association of Mutual Savings Banks for all savings banks in the United States. Data are reported on a gross-of-valuation-reserves basis.

Life insurance companies: Estimates of the Institute of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

Credit unions: Estimates by the National Credit Union Administration for a group of Federal and State-chartered credit unions that account for about 30 per cent of credit union assets. Figures are preliminary and revised annually to incorporate recent benchmark data.

1.40 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

	Source or type	Fiscal year 1975	Fiscal year 1976	Transition quarter (July–Sept. 1976)	Calendar year 1975 H2	Calendar year 1976 H1	Calendar year 1976 H2 r	Calendar year 1976 Nov.	Calendar year 1976 Dec.	Calendar year 1977 Jan.
	Receipts									
1	**All sources**	**280,997**	**300,005**	**81,773**	**r139,455**	**160,552**	**157,961**	**25,698**	**29,472**	**29,977**
2	*Individual income taxes, net*	*122,386*	*131,603*	*38,801*	*65,835*	*65,767*	*75,094*	*12,535*	*12,663*	*18,108*
3	Withheld	122,071	123,408	32,949	59,549	63,859	68,023	12,201	12,179	11,979
4	Presidential Election Campaign Fund	32	34	1	....	33	1	....	....	1
5	Nonwithheld	34,296	35,528	6,809	7,649	27,879	8,426	375	678	6,141
6	Refunds	34,013	27,367	958	1,362	26,004	1,356	41	194	13
7	*Corporation income taxes:*									
8	Gross receipts	45,747	46,783	9,808	18,810	27,973	20,706	1,185	7,838	2,007
9	Refunds	5,125	5,374	1,348	2,735	2,639	2,886	486	205	313
10	*Social insurance taxes and contributions, net*	*86,441*	*92,714*	*25,760*	*40,886*	*51,828*	*47,596*	*9,432*	*6,207*	*7,320*
11	Payroll employment taxes and contributions [1]	71,789	76,391	21,534	35,443	40,947	40,427	7,775	5,809	6,271
12	Self-employment taxes and contributions [1]	3,417	3,518	269	268	3,250	286	....	17	240
13	Unemployment insurance	6,771	8,054	2,698	2,861	5,193	4,379	1,205	−26	347
14	Other net receipts [2]	4,466	4,752	1,259	2,314	2,438	2,504	451	407	462
15	Excise taxes	16,551	16,963	4,473	r8,761	8,204	8,910	1,517	1,513	1,447
16	Customs	3,676	4,074	1,212	1,927	2,147	2,361	r392	412	381
17	Estate and gift	4,611	5,216	1,455	2,573	2,643	2,943	r570	502	504
18	Miscellaneous receipts [3]	6,711	8,026	1,612	3,397	4,630	3,236	553	542	521
	Outlays									
19	**All types [4]**	**326,105**	**366,466**	**94,746**	**r185,097**	**r181,369**	**193,719**	**33,083**	**31,891**	**32,640**
20	National defense	86,585	89,996	22,518	r46,214	44,052	45,002	7,434	7,575	7,082
21	International affairs [4]	5,862	5,067	1,997	r2,574	r2,668	3,028	294	472	349
22	General science, space, and technology	3,989	4,370	1,161	r2,415	1,708	2,377	400	418	304
23	Natural resources, environment, and energy	9,537	11,282	3,324	r5,018	6,900	7,206	1,341	1,217	1,042
24	Agriculture	1,660	2,502	584	r1,489	417	2,019	630	507	582
25	Commerce and transportation	16,010	17,248	4,700	r11,496	5,766	9,643	1,726	995	681
26	Community and regional development	4,431	5,300	1,530	r2,548	2,411	3,192	756	506	397
27	Education, training, employment, and social services	15,248	18,167	5,013	r8,423	9,116	9,083	1,709	1,563	1,541
28	Health	27,647	33,448	8,720	r16,681	17,008	19,329	3,014	4,071	2,961
29	Income security	108,605	127,406	32,796	r61,655	65,336	65,456	11,016	10,533	11,652
30	Veterans benefits and services	16,597	18,432	3,962	r9,010	9,450	8,542	1,699	1,467	1,630
31	Law enforcement and justice	2,942	3,320	859	r1,589	1,784	1,839	300	297	340
32	General government	3,089	2,927	878	r1,929	870	1,734	395	326	93
33	Revenue sharing and general purpose fiscal assistance	7,005	7,119	2,024	r3,528	3,664	4,729	590	127	2,062
34	Interest [5]	30,974	34,589	7,246	r15,180	18,560	18,409	2,438	6,025	2,382
35	Undistributed offsetting receipts [5,6]	r 14,075	−14,704	−2,567	r−4,652	−8,340	−7,869	−659	−4,207	−460

1 Old-age, disability and hospital insurance, and Railroad Retirement accounts.

2 Supplementary medical insurance premiums, Federal employee retirement contributions and Civil Service retirement and disability fund.

3 Deposits of earnings by F.R. Banks and other miscellaneous receipts.

4 Outlay totals reflect the reclassification of the Export-Import Bank from off-budget status to unified budget status. Export-Import Bank certificates of beneficial interest (effective July 1, 1975) and loans to Pefco are treated as debt rather than asset sales.

5 Effective September 1976, "Interest" and "Undistributed Offsetting Receipts" reflect the accounting conversion for the interest on special issues for U.S. Govt. accounts from an accrual basis to a cash basis.

6 Consists of interest received by trust funds, rents and royalties on the Outer Continental Shelf, and U.S. Govt. contributions for employee retirement.

1.41 FEDERAL DEBT SUBJECT TO STATUTORY LIMIT

Billions of dollars

Item	1973		1974		1975		1976		
	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**468.4**	**480.7**	**486.2**	**504.0**	**544.1**	**587.6**	**r631.9**	**[2]646.4**	**665.5**
2 *Public debt securities*	*457.3*	*469.1*	*474.2*	*492.7*	*533.7*	*576.6*	*620.4*	*634.7*	*653.5*
3 Held by public	333.9	339.4	336.0	351.5	387.9	437.3	470.8	488.6	506.4
4 Held by agencies	123.4	129.6	138.2	141.2	145.3	139.3	149.6	146.1	147.1
5 *Agency securities*	*11.1*	*11.6*	*12.0*	*11.3*	*10.9*	*10.9*	*r11.5*	*r11.6*	*12.0*
6 Held by public	9.1	9.6	10.0	9.3	9.0	8.9	r9.5	[2]9.7	10.0
7 Held by agencies	2.0	2.0	2.0	2.0	1.9	2.0	2.0	1.9	1.9
8 **Debt subject to statutory limit**	**459.1**	**470.8**	**476.0**	**493.0**	**534.2**	**577.8**	**621.6**	**635.8**	**654.7**
9 Public debt securities	456.7	468.4	473.6	490.5	532.6	576.0	619.8	634.1	652.9
10 Other debt[1]	2.4	2.4	2.4	2.4	1.6	1.7	1.7	1.7	1.7
11 MEMO: Statutory debt limit	465.0	475.7	495.0	495.0	577.0	595.0	636.0	636.0	682.0

1 Includes guaranteed debt of Govt. agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

2 Gross Federal debt and Agency debt held by the public increased $0.5 billion due to a retroactive reclassification of the Export-Import Bank certificates of beneficial interest from loan asset sales to debt, effective July 1, 1975.

SOURCE.—U.S. Treasury *Bulletin*.

1.42 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1973	1974	1975	1976				1977	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 **Total gross public debt**[1]	**469.9**	**492.7**	**576.6**	**634.7**	**637.6**	**644.6**	**653.5**	**653.9**	**663.3**
By type:									
2 **Interest-bearing debt**	**360.7**	**373.4**	**457.1**	**505.7**	**508.7**	**517.0**	**523.5**	**527.0**	**535.3**
3 *Marketable*	*270.2*	*282.9*	*363.2*	*407.7*	*408.6*	*415.4*	*421.3*	*424.0*	*431.6*
4 Bills	107.8	119.7	157.5	161.5	161.5	161.7	164.0	164.0	164.2
5 Notes	124.6	129.8	167.1	206.3	207.3	213.0	216.7	219.5	225.9
6 Bonds	37.8	33.4	38.6	39.8	39.8	40.7	40.6	40.5	41.6
7 *Nonmarketable*[2]	*197.6*	*208.7*	*212.5*	*225.9*	*226.5*	*228.2*	*231.2*	*229.0*	*230.7*
8 Convertible bonds[3]	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
9 Foreign issues[4]	26.0	22.8	21.6	20.8	22.3	22.5	22.3	22.2	22.2
10 Savings bonds and notes	60.8	63.8	67.9	71.2	71.5	71.9	72.3	72.6	73.0
11 Govt. account series[5]	*108.0*	*119.1*	*119.4*	*128.6*	*127.2*	*127.4*	*129.7*	*126.8*	*127.8*
By holder:[6]									
12 U.S. Govt. agencies and trust funds	129.6	141.2	139.3	146.1	144.6	144.9	147.1		
13 F.R. Banks	78.5	80.5	87.9	96.4	95.7	91.7	97.0		
14 **Private investors**	**261.7**	**271.0**	**349.4**	**392.2**	**397.3**	**408.1**	**409.5**		
15 Commercial banks	60.3	55.6	85.1	93.3	94.8	99.8	102.5		
16 Mutual savings banks	2.9	2.5	4.5	5.3	5.3	5.3	5.5		
17 Insurance companies	6.4	6.1	9.3	11.6	12.1	12.2	12.3		
18 Other corporations	10.9	11.0	20.2	25.7	24.7	24.2	25.5		
19 State and local governments	29.2	29.2	33.8	39.1	41.5	42.1	41.6		
Individuals:									
20 Savings bonds	60.3	63.4	67.3	70.9	71.3	71.6	72.0		
21 Other securities	16.9	21.5	24.0	28.8	28.8	29.0	28.8		
22 Foreign and international[7]	55.5	58.4	66.5	74.6	75.2	76.0	78.1		
23 Other miscellaneous investors[8]	19.3	23.2	38.6	42.9	43.6	47.7	43.2		

1 Includes $1.0 billion of non-interest-bearing debt (of which $612 million on Feb. 28, 1977, was not subject to statutory debt limitations).

2 Includes (not shown separately): Securities issued to the Rural Electrification Administration and to State and local governments, depositary bonds, retirement plan bonds, and individual retirement bonds.

3 These nonmarketable bonds, also known as Investment Series B Bonds, may be exchanged (or converted) at the owner's option for 1½ per cent, 5-year marketable Treasury notes. Convertible bonds that have been so exchanged are removed from this category and recorded in the notes category above.

4 Nonmarketable certificates of indebtedness, notes, and bonds in the Treasury foreign series and foreign-currency series.

5 Held only by U.S. Govt. agencies and trust funds.

6 Data for F.R. Banks and U.S. Govt. agencies and trust funds are actual holdings; data for other groups are Treasury estimates.

7 Consists of the investments of foreign balances and international accounts in the United States. Beginning with 1974, the figures exclude non-interest-bearing notes issued to the International Monetary Fund.

8 Includes savings and loan associations, nonprofit institutions, corporate pension trust funds, dealers and brokers, certain Govt. deposit accounts, and Govt.-sponsored agencies.

NOTE.—Gross public debt excludes guaranteed agency securities and, beginning in July 1974, includes Federal Financing Bank security issues.

SOURCE.—For data by type of security, *Monthly Statement of the Public Debt of the United States*, U.S. Treasury Department; for data by holder, *Treasury Bulletin*.

1.43 U.S. GOVERNMENT MARKETABLE SECURITIES Ownership, by maturity

Par value; millions of dollars; end of period

Type of holder	1975	1976 Nov.	1976 Dec.	1977 Jan.	1975	1976 Nov.	1976 Dec.	1977 Jan.
	All maturities				1 to 5 years			
1 **All holders**	**363,191**	**415,399**	**421,276**	**423,995**	**112,270**	**137,932**	**141,132**	**138,727**
2 U.S. Govt. agencies and trust funds	19.347	16,429	16,485	16,214	7.058	6,213	6,141	6,143
3 F. R. Banks	87,934	91,660	96,971	94,134	30,518	30,036	31,249	30,933
4 *Private investors*	*255,860*	*307,310*	*307,820*	*313,647*	*74,694*	*101,683*	*103,742*	*101,651*
5 Commercial banks	64,398	74,013	78,262	78,077	29,629	38,254	40,005	40,110
6 Mutual savings banks	3,300	3,956	4,072	4,169	1.524	2,083	2,010	1,941
7 Insurance companies	7,565	10,194	10,284	10,070	2,359	3,768	3,885	3.706
8 Nonfinancial corporations	9,365	13,062	14,193	15,330	1,967	2,873	2,618	2,981
9 Savings and loan associations	2,793	4,462	4,576	4,808	1,558	2,320	2,360	2,310
10 State and local governments	9,285	12,543	12,252	14,836	1.761	2.546	2,543	2,620
11 All others	159,154	189,080	184,182	186,357	35.894	49,840	50,321	47.984
	Total, within 1 year				5 to 10 years			
12 **All holders**	**199,692**	**208,271**	**211,035**	**213,558**	**26,436**	**43,060**	**43,045**	**45,731**
13 U.S. Govt. agencies and trust funds	2,769	1,929	2,012	1.767	3.283	2,835	2,879	2.870
14 F. R. Banks	46,845	47,920	51,569	49,033	6.463	8,876	9,148	9,173
15 *Private investors*	*150,078*	*158,422*	*157,454*	*162,758*	*16,690*	*31,349*	*31,018*	*33,688*
16 Commercial banks	29,875	28,629	31,213	29,805	4,071	6,301	6,278	7,466
17 Mutual savings banks	983	1,087	1,214	1,238	448	516	567	716
18 Insurance companies	2,024	2.348	2,191	2,173	1,592	2,427	2,546	2,589
19 Nonfinancial corporations	7,105	9,738	11,009	11,751	175	295	370	359
20 Savings and loan associations	914	1,926	1,984	2,115	216	139	155	313
21 State and local governments	5,288	7,072	6,622	9,083	782	1,380	1,465	1,488
22 All others	103,889	107,621	103,220	106,592	9.405	20,291	19.637	20,756
	Bills, within 1 year				10 to 20 years			
23 **All holders**	**157,483**	**161,711**	**163,992**	**164,005**	**14,264**	**11,915**	**11,865**	**11,814**
24 U.S. Govt. agencies and trust funds	207	375	449	239	4.233	3,102	3,102	3,102
25 F. R. Banks	38,018	37,992	41,279	38,743	1,507	1,303	1,363	1,370
26 *Private investors*	*119,258*	*123,344*	*122,264*	*125,023*	*8,524*	*7,510*	*7,400*	*7,342*
27 Commercial banks	17,481	15,202	17,303	15,136	552	406	339	343
28 Mutual savings banks	554	355	454	429	232	155	139	132
29 Insurance companies	1,513	1,621	1,463	1,416	1,154	1,122	1,114	1,074
30 Nonfinancial corporations	5,829	8,712	9,939	10,504	61	120	142	181
31 Savings and loan associations	518	1,257	1,266	1,341	82	65	64	55
32 State and local governments	4,566	6,022	5,556	8,057	896	723	718	713
33 All others	88,797	90,175	86,282	88,137	5.546	4,919	4,884	4,842
	Other, within 1 year				Over 20 years			
34 **All holders**	**42,209**	**46,560**	**47,043**	**49,553**	**10,530**	**14,221**	**14,200**	**14,165**
35 U.S. Govt. agencies and trust funds	2,562	1,554	1,563	1,528	2,053	2,350	2,350	2,331
36 F. R. Banks	8,827	9,928	10,290	10,290	2,601	3,527	3,642	3,626
37 *Private investors*	*30,820*	*35,078*	*35,190*	*37,735*	*5,876*	*8,344*	*8,208*	*8,208*
38 Commercial banks	12,394	13,427	13,910	14,669	271	423	427	353
39 Mutual savings banks	429	732	760	809	112	115	143	141
40 Insurance companies	511	727	728	757	436	529	548	527
41 Nonfinancial corporations	1,276	1,026	1,070	1,247	57	36	55	58
42 Savings and loan associations	396	669	718	774	22	12	13	14
43 State and local governments	722	1,050	1,066	1,026	558	821	904	931
44 All others	15,092	17,446	16.938	18,455	4,420	6.409	6,120	6,184

NOTE.—Direct public issues only. Based on Treasury Survey of Ownership. From *Treasury Bulletin* (U.S. Treasury Dept.).

Data complete for U.S. Govt. agencies and trust funds and F.R. Banks, but data for other groups include only holdings of those institutions that report. The following figures show, for each category, the number and proportion reporting as of January 31, 1977: (1) 5,502 commercial banks, 468 mutual savings banks, and 728 insurance companies, each about 90 per cent; (2) 448 nonfinancial corporations and 486 savings and loan assns., each about 50 per cent; and (3) 500 State and local govts., about 40 per cent.

"All others," a residual, includes holdings of all those not reporting in the Treasury Survey, including investor groups not listed separately.

1.44 U.S. GOVERNMENT SECURITIES DEALERS Transactions

Par value; averages of daily figures, in millions of dollars

Item	1974	1975	1976 Nov.	1976 Dec.	1977 Jan.p	1977 Week ending Wednesday Jan. 19	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23
1 **U.S. Govt. securities**	**3,579**	**6,027**	**14,995**	**13,059**	**12,502**	**13,811**	**r9,813**	**11,565**	**15,925**	**11,228**	**10,978**
By maturity:											
2 Bills	2,550	3,889	8,565	7,511	7,630	8,555	6,108	7,182	9,231	7,114	6,356
3 Other within 1 year	250	223	170	172	156	153	126	254	314	243	192
4 1-5 years	465	1,414	4,034	3,355	2,805	2,947	2,408	2,633	3,866	2,336	2,898
5 5-10 years	256	363	1,804	1,653	1,604	1,807	962	1,218	2,088	1,173	1,209
6 Over 10 years	58	138	422	368	307	349	209	279	426	363	323
By type of customer:											
7 U.S. Govt. securities dealers	652	885	1,873	1,650	1,641	1,945	1,388	1,369	1,686	1,421	1,498
8 U.S. Govt. securities brokers	965	1,750	5,389	4,444	4,586	5,234	3,167	3,875	6,089	3,758	3,618
9 Commercial banks	998	1,451	3,279	2,999	2,884	3,020	2,328	2,617	3,643	2,598	2,493
10 All others[1]	964	1,941	4,454	3,966	3,392	3,611	2,931	3,703	4,508	3,451	3,367
11 **Federal agency securities**	**965**	**1,043**	**2,096**	**2,025**	**1,764**	**r1,860**	**r1,484**	**1,413**	**1,647**	**1,489**	**1,639**

[1] Includes—among others—all other dealers and brokers in commodities and securities, foreign banking agencies, and the F.R. System.

NOTE.—Averages for transactions are based on number of trading days in the period.

Transactions are market purchases and sales of U.S. Govt. securities dealers reporting to the F.R. Bank of New York. The figures exclude allotments of, and exchanges for, new U.S. Govt. securities, redemptions of called or matured securities, or purchases or sales of securities under repurchase, reverse repurchase (resale), or similar contracts.

1.45 U.S. GOVERNMENT SECURITIES DEALERS Positions and Sources of Financing

Par value; averages of daily figures, in millions of dollars

Item	1974	1975	1976 Nov.	1976 Dec.	1977 Jan.p	1976 Week ending Wednesday Dec. 29	1977 Jan. 5	Jan. 12	Jan. 19	Jan. 26	Feb. 2
					Positions[2]						
1 ***U.S. Govt. securities***	**2,580**	**5,884**	**9,744**	**10,840**	**8,914**	**11,310**	**10,140**	**9,929**	**9,557**	**8,426**	**5,582**
2 Bills	1,932	4,297	7,321	8,394	6,596	8,250	7,123	7,249	7,608	6,181	3,888
3 Other within 1 year	-6	265	161	155	138	217	182	99	117	151	196
4 1-5 years	265	886	1,102	1,336	1,270	1,815	1,631	1,472	1,011	1,348	857
5 5-10 years	302	300	789	596	532	649	779	652	454	436	348
6 Over 10 years	88	136	372	359	379	378	424	458	367	310	292
7 **Federal agency securities**	**1,212**	**943**	**1,110**	**1,435**	**923**	**1,349**	**1,292**	**999**	**924**	**891**	**423**
					Sources of financing[3]						
8 **All sources**	**3,977**	**6,666**	**11,613**	**14,032**	**11,938**	**13,990**	**r13,213**	**12,563**	**12,835**	**11,371**	**8,922**
Commercial banks:											
9 New York City	1,032	1,621	2,453	2,567	2,362	2,379	r2,277	2,858	2,985	1,904	1,430
10 Outside New York City	1,064	1,466	2,397	2,839	2,353	2,515	2,242	3,048	2,634	1,872	1,666
11 Corporations[1]	459	842	1,871	2,437	2,141	2,110	2,059	2,069	2,189	2,213	2,068
12 All other	1,423	2,738	4,893	6,188	5,082	6,997	6,635	4,589	5,027	5,381	3,759

[1] All business corporations except commercial banks and insurance companies.

[2] Net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, *that is, trade-date basis, including any such securities that have been* sold under agreements to repurchase. The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Securities owned, and hence dealer positions, do not include securities purchased under agreements to resell.

[3] Total amounts outstanding of funds borrowed by nonbank dealer firms and dealer departments of commercial banks against U.S. Govt. and Federal agency securities (through both collateral loans and sales under agreements to repurchase), plus internal funds used by bank dealer departments to finance positions in such securities. Borrowings against securities held under agreement to resell are excluded where the borrowing contract and the agreement to resell are equal in amount and maturity, that is, a matched agreement.

NOTE.—Averages for positions are based on number of trading days in the period; those for financing, on the number of calendar days in the period.

1.46 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars; end of period

Agency	1973	1974	1975	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.
1 **Federal and Federally sponsored agencies**	**[r]71,594**	**[r]89,381**	**[r]97,680**	**[r]100,839**	**[r]101,724**	**[r]102,456**	**[r]103,865**	**[r]103,415**	**[r]103,308**
2 *Federal agencies*	*11,554*	*12,719*	*19,046*	*21,029*	*21,453*	*21,895*	*22,676*	*22,645*	*22,419*
3 Defense Department[1]	1,439	1,312	1,220	1,164	1,152	1,136	1,128	1,117	1,113
4 Export-Import Bank[2,3]	2,625	2,893	7,188	7,578	7,945	7,728	8,353	8,336	8,574
5 Federal Housing Administration[4]	415	440	564	584	582	578	589	585	575
6 Government National Mortgage Association Participation Certificates[5]	4,390	4,280	4,200	4,145	4,145	4,145	4,145	4,145	4,120
7 Postal Service[6]	250	721	1,750	2,998	2,998	3,498	3,498	3,498	2,998
8 Tennessee Valley Authority	2,435	3,070	3,915	4,470	4,535	4,713	4,865	4,865	4,935
9 United States Railway Association[6]	....	3	209	90	96	97	98	99	104
10 *Federally sponsored agencies*	*[r]60,040*	*[r]76,662*	*[r]78,634*	*[r]79,810*	*[r]80,271*	*[r]80,561*	*[r]81,189*	*[r]80,770*	*[r]80,889*
11 Federal home loan banks	15,362	21,890	18,900	17,102	17,113	17,061	17,122	16,807	16,811
12 Federal Home Loan Mortgage Corporation	1,784	1,551	1,550	1,550	1,150	1,150	1,150	1,150	1,150
13 Federal National Mortgage Association	23,002	28,167	29,963	29,845	30,429	30,685	30,656	30,413	30,565
14 Federal land banks	10,062	12,653	15,000	16,566	16,566	16,566	17,124	17,127	17,127
15 Federal intermediate credit banks	6,932	8,589	9,254	10,595	10,687	10,791	10,712	10,669	10,494
16 Banks for cooperatives	2,695	3,589	3,655	3,745	3,919	3,901	4,023	4,207	4,330
17 Student Loan Marketing Association[7]	200	220	310	405	405	405	400	[r]395	410
18 *Other*	*3*	*3*	*2*	*2*	*2*	*2*	*2*	*2*	*2*
MEMO:									
19 **Federal Financing Bank Debt[6,8]**	....	**4,474**	**17,154**	**24,149**	**25,052**	**25,888**	**26,636**	**27,028**	**28,711**
Lending to Federal and Federally sponsored agencies:									
20 Export-Import Bank[3]	....	....	4,595	4,985	4,985	4,768	4,768	4,768	5,208
21 Postal Service[6]	....	500	1,500	2,748	2,748	3,248	3,248	3,248	2,748
22 Student Loan Marketing Association[7]	....	220	310	405	405	405	400	395	410
23 Tennessee Valley Authority	....	895	1,840	2,495	2,560	2,738	2,810	2,890	3,110
24 United States Railway Association[6]	....	3	209	90	96	97	98	99	104
Other lending:[9]									
25 Farmers Home Administration	....	2,500	7,000	9,200	9,650	9,650	10,250	10,250	10,750
26 Rural Electrification Administration	....	....	566	1,164	1,215	1,514	1,573	[r]1,674	1,768
27 Others	....	356	1,134	3,062	3,393	3,468	3,489	[r]3,704	4,613

1 Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.

2 Includes participation certificates reclassified as debt beginning Oct. 1, 1976.

3 Off-budget Aug. 17, 1974 through Sept. 30, 1976 on-budget thereafter.

4 Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.

5 Certificates of participation issued prior to fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.

6 Off-budget.

7 Unlike other Federally sponsored agencies, the Student Loan Marketing Association may borrow from the Federal Financing Bank (FFB) since its obligations are guaranteed by the Department of Health, Education, and Welfare.

8 The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other Federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.

9 Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. Note that the Farmers Home Administration item consists exclusively of agency assets while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

1.47 NEW SECURITY ISSUES State and Local Government and Corporate

Millions of dollars

	Type of issue or issuer, or use	1973	1974	1975	1976 June	1976 July	1976 Aug.	1976 Sept.	1976 Oct.
		State and local government							
1	**All issues, new and refunding**[1]	**23,969**	**24,315**	**30,607**	**3,028**	**2,691**	**2,765**	**2,808**	....
	By type of issue:								
2	General obligation	12,257	13,563	16,020	1,689	1,186	1,269	1,265	....
3	Revenue	10,632	10,212	14,511	1,324	1,496	1,488	1,538	....
4	Housing Assistance Administration[2]	1,022	461	....	....	....	....	....	....
5	U.S. Govt. loans	58	79	76	15	9	8	5	....
	By type of issuer:								
6	State	4,212	4,784	7,438	590	308	669	470	....
7	Special district and statutory authority	9,505	8,638	12,441	1,097	1,261	1,162	1,229	....
8	Municipalities, counties, townships, school districts	10,249	10,817	10,660	1,331	1,118	930	1,104	....
9	**Issues for new capital, total**	**22,397**	**23,508**	**29,495**	**2,807**	**2,470**	**2,504**	**2,590**	....
	By use of proceeds:								
10	Education	4,311	4,730	4,689	414	309	373	356	....
11	Transportation	2,804	1,712	2,208	128	36	166	251	....
12	Utilities and conservation	5,654	5,634	7,209	745	1,000	784	747	....
13	Social welfare	4,588	3,820	4,392	423	488	694	767	....
14	Industrial aid	571	494	445	47	66	24	30	....
15	Other purposes	4,465	7,118	10,552	1,050	571	463	439	....
		Corporate							
16	**All issues**[3]	**32,025**	**38,311**	**53,644**	**6,418**	**3,216**	**r3,356**	**r4,817**	**4,363**
17	**Bonds**	**21,049**	**32,066**	**42,756**	**5,023**	**2,578**	**r2,678**	**r4,263**	**3,435**
	By type of offering:								
18	Public	13,244	25,903	32,583	3,140	1,239	1,565	2,100	2,784
19	Private placement	7,802	6,160	10,172	1,883	1,348	r1,113	r2,163	651
	By industry group:								
20	Manufacturing	4,199	9,867	16,980	1,321	1,090	r749	r670	1,223
21	Commercial and miscellaneous	1,318	1,845	2,750	483	171	319	r546	51
22	Transportation	1,084	1,550	3,439	263	118	48	r1,205	237
23	Public utility	5,578	8,873	9,658	869	621	663	r1,118	858
24	Communication	3,523	3,710	3,464	698	20	209	r147	150
25	Real estate and financial	5,344	6,218	6,469	1,389	568	692	r577	919
26	**Stocks**	**10,979**	**6,247**	**10,863**	**1,395**	**629**	**678**	**554**	**928**
	By type:								
27	Preferred	3,337	2,253	3,458	360	89	214	136	255
28	Common	7,642	3,994	7,405	1,035	540	464	418	673
	By industry group:								
29	Manufacturing	638	544	1,670	125	108	282	83	87
30	Commercial and miscellaneous	1,532	940	1,470	58	164	69	33	73
31	Transportation	26	22	1	3	....	13	7	....
32	Public utility	4,691	3,964	6,235	479	311	257	347	591
33	Communication	1,348	217	1,002	711	6	3	....	....
34	Real estate and financial	2,745	562	488	19	40	54	84	177

1 Par amounts of long-term issues based on date of sale.

2 Only bonds sold pursuant to the 1949 Housing Act, which are secured by contract requiring the Housing Assistance Administration to make annual contributions to the local authority.

3 Figures, which represent gross proceeds of issues maturing in more than 1 year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than $100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners.

SOURCES.—State and local government securities, Securities Industry Association; corporate securities, Securities and Exchange Commission.

1.48 CORPORATE SECURITIES Net Change in Amounts Outstanding

Millions of dollars

	Source of change, or industry	1973	1974	1975	1975 Q1	1975 Q2	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3
	All issues[1]										
1	New issues	33,559	39,344	53,255	15,211	15,602	9,079	13,363	13,671	14,229	11,385
2	Retirements	11,804	9,935	10,991	2,088	3,211	2,576	3,116	2,315	3,668	2,478
3	**Net change**	**21,754**	**29,399**	**42,263**	**13,123**	**12,390**	**6,503**	**10,247**	**11,356**	**10,561**	**8,907**
	Bonds and notes										
4	New issues	21,501	31,354	40,468	12,759	11,460	6,654	9,595	9,404	10,244	8,701
5	Retirements	8,810	6,255	8,583	1,587	2,336	2,111	2,549	1,403	3,159	1,826
6	**Net change: Total**	**12,691**	**25,098**	**31,886**	**11,172**	**9,124**	**4,543**	**7,047**	**8,001**	**7,084**	**6,875**
	By industry:										
7	Manufacturing	801	7,404	13,219	5,134	4,574	1,442	2,069	2,966	1,529	1,551
8	Commercial and other[2]	-109	1,116	1,605	373	483	221	528	203	726	610
9	Transportation, including railroad	1,044	341	2,165	1	429	147	1,588	985	488	1,092
10	Public utility	4,265	7,308	7,236	2,653	1,977	1,395	1,211	1,820	1,260	2,109
11	Communication	3,165	3,499	2,980	1,269	810	472	429	498	953	335
12	Real estate and financial	3,523	5,428	4,682	1,742	852	866	1,222	1,530	2,128	1,178
	Common and preferred stock										
13	New issues	12,057	7,980	12,787	2,452	4,142	2,425	3,768	4,267	3,985	2,684
14	Retirements	2,993	3,678	2,408	501	875	465	567	912	509	652
15	**Net change: Total**	**9,064**	**4,302**	**10,377**	**1,951**	**3,266**	**1,960**	**3,200**	**3,355**	**3,477**	**2,032**
	By industry:										
16	Manufacturing	658	17	1,607	262	500	412	433	838	1,120	744
17	Commercial and other[2]	1,411	-135	1,137	77	490	108	462	88	318	117
18	Transportation, including railroad	-93	-20	65	1	7	53	4	5	25	17
19	Public utility	4,509	3,834	6,015	1,569	1,866	1,043	1,537	2,174	1,300	932
20	Communication	1,399	398	1,084	24	359	97	604	47	735	19
21	Real estate and financial	1,181	207	468	18	43	247	160	203	-21	203

1 Excludes issues of investment companies.
2 Extractive and commercial and miscellaneous companies.

NOTE.--Securities and Exchange Commission estimates of cash transactions only, as published in the Commission's *Statistical Bulletin*.

New issues and retirements exclude foreign sales and include sales of securities held by affiliated companies, special offerings to employees, new stock issues and cash proceeds connected with conversions of bonds into stocks. Retirements, defined in the same way, include securities retired with internal funds or with proceeds of issues for that purpose.

1.49 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

	Item	1975	1976	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
	INVESTMENT COMPANIES Excluding money market funds									
1	Sales of own shares[1]	3,302	4,226	281	256	338	378	446	661	655
2	Redemptions of own shares[2]	3,686	6,802	596	536	573	450	419	628	628
3	Net sales	-384	2,496	-315	-280	-235	-72	27	33	141
4	**Assets**[3]	**42,179**	**47,537**	**45,986**	**45,457**	**46,138**	**44,858**	**45,369**	**47,537**	**45,760**
5	Cash position[4]	3,748	2,747	2,547	2,561	2,507	2,434	2,635	2,747	2,947
6	Other	38,431	44,790	43,439	42,896	43,631	42,424	42,734	44,790	42,813

1 Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
2 Excludes share redemption resulting from conversions from one fund to another in the same group.
3 Market value at end of period, less current liabilities.

4 Also includes all U.S. Govt. securities and other short-term debt securities.

NOTE.--Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

1.50 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates

Account	1973	1974	1975	1975				1976		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
1 **Profits before tax**	**115.8**	**127.6**	**114.5**	**94.2**	**105.8**	**126.9**	**131.3**	**141.1**	**146.2**	**150.2**
2 Profits tax liability	48.7	52.4	49.2	40.2	44.8	54.8	57.2	61.4	63.5	65.1
3 Profits after tax	67.1	75.2	65.3	54.0	61.0	72.1	74.2	79.7	82.7	85.1
4 Dividends	27.8	30.8	32.1	31.7	31.9	32.6	32.2	33.1	34.4	35.4
5 Undistributed profits	39.3	44.4	33.2	22.3	29.1	39.5	42.0	46.6	48.3	49.7
6 Capital consumption allowances[1]	73.7	81.6	89.4	86.4	87.9	90.5	92.9	94.3	96.2	98.2
7 Net cash flow	113.0	126.0	122.6	108.7	117.0	130.0	134.9	140.9	144.5	147.9

1 With capital consumption adjustment.

SOURCE.—U.S. Dept. of Commerce, *Survey of Current Business*.

1.51 NONFINANCIAL CORPORATIONS Current Assets and Liabilities

Billions of dollars, end of period

Account	1971	1972	1973	1974	1975			1976		
					Q2	Q3	Q4	Q1	Q2	Q3
1 **Current assets**	**529.4**	**574.4**	**643.2**	**712.2**	**703.2**	**716.5**	**731.6**	**753.5**	**775.4**	**791.8**
2 Cash	53.3	57.5	61.6	62.7	63.7	65.6	68.1	68.4	70.8	71.1
3 U.S. Govt. securities	11.0	10.2	11.0	11.7	12.7	14.3	19.4	21.7	23.3	23.9
4 *Notes and accounts receivable*	*221.1*	*243.4*	*269.6*	*293.2*	*288.1*	*298.0*	*298.2*	*310.9*	*321.8*	*328.5*
5 U.S. Govt.[1]	3.5	3.4	3.5	3.5	3.3	3.3	3.6	3.6	3.7	4.3
6 Other	217.6	240.0	266.1	289.7	284.8	294.7	294.6	307.3	318.1	324.2
7 Inventories	200.4	215.2	246.7	288.0	281.4	279.6	285.8	288.8	295.6	302.1
8 Other	43.8	48.1	54.4	56.6	57.3	59.0	60.0	63.6	63.9	66.3
9 **Current liabilities**	**326.0**	**352.2**	**401.0**	**450.6**	**434.2**	**444.7**	**457.5**	**465.9**	**475.9**	**484.1**
10 *Notes and accounts payable*	*220.5*	*234.4*	*265.9*	*292.7*	*275.9*	*279.6*	*288.0*	*286.9*	*293.8*	*291.7*
11 U.S. Govt.[1]	4.9	4.0	4.3	5.2	5.8	6.2	6.4	6.4	6.8	7.0
12 Other	215.6	230.4	261.6	287.5	270.1	273.4	281.6	280.5	287.0	284.7
13 Accrued Federal income taxes	13.1	15.1	18.1	23.2	17.7	19.4	20.7	23.9	22.0	24.9
14 Other	92.4	102.6	117.0	134.8	140.6	145.6	148.8	155.0	160.1	167.5
15 **Net working capital**	**203.6**	**221.3**	**242.3**	**261.5**	**269.0**	**271.8**	**274.1**	**287.6**	**299.5**	**307.7**

1 Receivables from, and payables to, the U.S. Govt. exclude amounts offset against each other on corporations' books.

SOURCE.—Securities and Exchange Commission estimates published in the Commission's *Statistical Bulletin*.

1.52 BUSINESS EXPENDITURES on New Plant and Equipment

Billions of dollars; quarterly data are at seasonally adjusted annual rates

Industry	1974	1975	1976	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3[r]	1976 Q4[r]	1977 Q1[2]
1 **All industries**	**112.22**	**112.75**	**120.82**	**112.16**	**111.80**	**114.72**	**118.12**	**122.55**	**127.87**	**129.38**
Manufacturing										
2 Durable goods industries	22.57	21.88	23.50	21.01	21.07	21.63	22.54	24.59	25.23	25.52
3 Nondurable goods industries	23.28	26.13	29.22	26.38	25.75	27.58	28.09	30.20	31.00	31.47
Nonmanufacturing										
4 Mining	3.18	3.80	3.98	3.82	3.82	3.83	3.83	4.21	4.03	4.22
Transportation:										
5 Railroad	2.56	2.56	2.35	2.75	2.39	2.08	2.64	2.69	1.98	2.22
6 Air	2.00	1.87	1.31	2.12	1.65	1.18	1.44	1.12	1.51	1.45
7 Other	2.09	3.03	3.56	2.99	3.56	3.29	4.16	3.44	3.34	2.67
Public utilities:										
8 Electric	17.61	16.99	18.90	16.58	17.92	18.56	18.82	18.22	20.01	20.75
9 Gas and other	2.93	3.14	3.47	3.21	3.00	3.36	3.03	3.45	4.04	3.82
10 Communication	13.96	12.76	12.93	12.95	12.22	12.54	12.62	13.64	36.73	37.26
11 Commercial and other[1]	22.05	20.61	20.87	20.34	20.44	20.68	20.94	20.99		

[1] Includes trade, service, construction, finance, and insurance.
[2] Anticipated by business.

NOTE.—Estimates for corporate and noncorporate business, excluding agriculture; real estate operators; medical, legal, educational, and cultural service; and nonprofit organizations.

SOURCE.—U.S. Dept. of Commerce, *Survey of Current Business*.

1.53 MORTGAGE MARKETS

Millions of dollars, except as noted

	Item	1974	1975	1976	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
		Terms and yields in primary and secondary markets								
	PRIMARY MARKETS									
	Conventional mortgages on new homes									
	Terms:[1]									
1	Purchase price (thous. dollars)	40.1	44.6	48.4	49.6	50.6	49.0	r48.6	51.0	51.5
2	Amount of loan (thous. dollars)	29.8	33.3	35.9	36.8	37.4	36.2	36.0	37.1	38.5
3	Loan/price ratio (per cent)	74.3	74.7	74.2	75.8	75.6	75.3	75.6	74.7	76.6
4	Maturity (years)	26.3	26.8	27.2	27.8	27.7	28.0	27.0	27.7	28.2
5	Fees and charges (per cent of loan amount)[2]	1.30	1.54	1.44	1.38	1.42	1.38	1.36	1.38	1.39
6	Contract rate (per cent per annum)	8.71	8.75	8.76	8.79	8.85	8.85	8.83	8.87	8.83
	Yield (per cent per annum):									
7	FHLBB series[3]	8.92	9.01	8.99	9.02	9.08	9.07	9.05	9.10	9.05
8	HUD series[4]	9.22	9.10	8.99	9.05	9.00	9.00	8.95	8.90	8.80
	SECONDARY MARKETS									
	Yields (per cent per annum) on—									
9	FHA mortgages (HUD series)[5]	9.55	9.19	8.82	8.93	8.82	8.55	8.45	8.25	8.40
10	GNMA securities[6]	8.72	8.52	8.17	8.30	8.10	7.98	7.93	7.59	7.85
	FNMA auctions:[7]									
11	Government-underwritten loans	9.53	9.31	8.92	8.99	8.88	8.75	8.66	8.45	8.48
12	Conventional loans	9.70	9.36	9.12	9.15	9.11	9.05	9.00	8.84	8.82
		Activity in secondary markets								
	FEDERAL NATIONAL MORTGAGE ASSOCIATION									
	Mortgage holdings at end of period:									
13	Total	29,578	31,824	32,904	32,069	32,062	32,019	32,929	32,904	32,848
14	FHA-insured	19,189	19,732	18,916	19,180	19,133	19,077	18,986	18,916	18,854
15	VA-guaranteed	8,310	9,573	9,212	9,394	9,366	9,314	9,264	9,212	9,162
16	Conventional	2,080	2,519	4,776	3,496	3,563	3,628	4,679	4,776	4,833
	Mortgage transactions during period:									
17	Purchases	6,953	4,263	3,606	277	199	162	1,131	191	141
18	Sales	4	2	86	1	....	....	8	....	....
	Mortgage commitments:[8]									
19	Contracted during period	10,765	6,106	6,247	492	463	480	615	290	1,180
20	Outstanding at end of period	7,960	4,126	3,398	4,335	3,983	3,672	3,649	3,398	4,142
	Auction of 4-month commitments to buy—									
	Government-underwritten loans:									
21	Offered[9]	5,492.7	7,042.8	4,929.8	361.4	221.0	235.5	494.1	56.9	747.4
22	Accepted	2,371.4	3,848.3	2,787.2	214.4	117.9	107.1	221.1	41.5	549.1
	Conventional loans:									
23	Offered[9]	1,206.8	1,401.1	2,595.7	298.8	321.7	297.5	353.3	150.2	326.8
24	Accepted	656.4	765.2	1,879.3	208.7	225.4	215.8	296.9	135.4	238.3
	FEDERAL HOME LOAN MORTGAGE CORPORATION									
	Mortgage holdings at end of period:[10]									
25	Total	4,586	4,987	4,269	4,310	4,269	4,190	4,162	4,269	....
26	FHA/VA	1,904	1,824	1,618	1,695	1,679	1,660	1,638	1,618	....
27	Conventional	2,682	3,163	2,651	2,614	2,590	2,530	2,523	2,651	....
	Mortgage transactions during period:									
28	Purchases	2,191	1,716	1,175	77	88	78	101	208	....
29	Sales	52	1,020	1,396	278	93	116	91	60	....
	Mortgage commitments:[11]									
30	Contracted during period	4,553	982	1,477	117	163	171	245	105	....
31	Outstanding at end of period	2,390	111	333	175	243	326	452	333	....

1 Weighted averages based on sample surveys of mortgages originated by major institutional lender groups. Compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.

2 Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) in order to obtain a loan.

3 Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.

4 Average contract rates on new commitments for conventional first mortgages, rounded to the nearest 5 basis points; from Dept. of Housing and Urban Development.

5 Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates.

6 Average net yields to investors on Government National Mortgage Association-guaranteed, mortgage-backed, fully-modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are unweighted averages of Monday quotations for the month.

7 Average gross yields (before deduction of 38 basis points for mortgage servicing) on accepted bids in Federal National Mortgage Association's auctions of 4-month commitments to purchase home mortgages, assuming prepayment in 12 years for 30-year mortgages. No adjustments are made for FNMA commitment fees or stock related requirements. Monthly figures are unweighted averages for auctions conducted within the month.

8 Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA–GNMA Tandem plans.

9 Mortgage amounts offered by bidders are total bids received.

10 Includes participations as well as whole loans.

11 Includes conventional and Government-underwritten loans.

1.54 MORTGAGE DEBT OUTSTANDING

Millions of dollars

	Type of holder, and type of property	End of year 1972	1973	1974	1975	End of quarter 1976 Q1	Q2	Q3	Q4
1	**All holders**	**603,417**	**682,321**	**742,504**	**801,546**	**817,278**	**838,893**	**r862,197**	**884,232**
2	1- to 4-family	372,793	416,883	449,937	491,678	503,402	519,437	r537,336	r553,054
3	Multifamily	82,572	92,877	99,851	100,348	100,487	100,680	r100,708	101,460
4	Commercial	112,294	131,308	146,428	158,644	161,024	164,527	r168,144	171,978
5	Farm	35,758	41,253	46,288	50,876	52,365	54,249	56,009	57,740
6	**Major financial institutions**	**450,000**	**505,400**	**542,552**	**581,296**	**592,061**	**609,086**	**626,487**	**642,851**
7	*Commercial banks*[1]	*99,314*	*119,068*	*132,105*	*136,186*	*137,986*	*141,086*	*143,986*	*146,586*
8	1- to 4-family	57,004	67,998	74,758	77,018	78,218	80,218	81,928	83,402
9	Multifamily	5,778	6,932	7,619	5,915	5,515	5,115	5,040	5,072
10	Commercial	31,751	38,696	43,679	46,882	47,812	49,112	50,251	51,233
11	Farm	4,781	5,442	6,049	6,371	6,441	6,641	6,767	6,879
12	*Mutual savings banks*	*67,556*	*73,230*	*74,920*	*77,249*	*77,738*	*78,735*	*80,145*	*81,554*
13	1- to 4-family	46,229	48,811	49,213	50,025	50,344	50,989	51,902	52,814
14	Multifamily	10,910	12,343	12,923	13,792	13,876	14,030	14,282	14,534
15	Commercial	10,355	12,012	12,722	13,373	13,456	13,653	13,897	14,141
16	Farm	62	64	62	59	62	63	64	65
17	*Savings and loan associations*	*206,182*	*231,733*	*249,293*	*278,693*	*286,556*	*299,574*	*312,139*	*323,130*
18	1- to 4-family	167,049	187,750	201,553	224,710	231,337	241,996	252,521	261,732
19	Multifamily	20,783	22,524	23,683	25,417	25,847	26,722	27,468	28,116
20	Commercial	18,350	21,459	24,057	28,566	29,372	30,856	32,150	33,282
21	*Life insurance companies*	*76,948*	*81,369*	*86,234*	*89,168*	*89,781*	*89,691*	*90,217*	*91,581*
22	1- to 4-family	22,315	20,426	19,026	17,590	17,321	16,861	16,458	16,058
23	Multifamily	17,347	18,451	19,625	19,629	19,726	19,374	19,256	19,276
24	Commercial	31,608	36,496	41,256	45,196	45,907	46,456	47,322	48,766
25	Farm	5,678	5,996	6,327	6,753	6,827	7,000	7,181	7,481
26	**Federal and related agencies**	**40,157**	**46,721**	**58,320**	**66,891**	**67,350**	**66,165**	**r67,282**	**67,144**
27	*Government National Mortgage Assn.*	*5,113*	*4,029*	*4,846*	*7,438*	*7,619*	*5,557*	*5,068*	*4,241*
28	1- to 4-family	2,513	1,455	2,248	4,728	4,886	3,165	2,486	1,970
29	Multifamily	2,600	2,574	2,598	2,710	2,733	2,392	2,582	2,271
30	*Farmers Home Admin.*	*1,019*	*1,366*	*1,432*	*1,109*	*650*	*830*	*1,355*	*1,064*
31	1- to 4-family	279	743	759	208	97	228	754	454
32	Multifamily	29	29	167	215	23	46	143	218
33	Commercial	320	218	156	190	96	151	133	72
34	Farm	391	376	350	496	434	405	325	320
35	*Federal Housing and Veterans Admin.*	*3,338*	*3,476*	*4,015*	*4,970*	*5,033*	*5,243*	*r5,060*	*5,539*
36	1- to 4-family	2,199	2,013	2,009	1,990	1,908	1,781	r1,731	1,736
37	Multifamily	1,139	1,463	2,006	2,980	3,125	3,462	r3,329	3,803
38	*Federal National Mortgage Assn.*	*19,791*	*24,175*	*29,578*	*31,824*	*32,182*	*32,028*	*32,962*	*32,904*
39	1- to 4-family	17,697	20,370	23,778	25,813	26,262	26,112	27,030	26,934
40	Multifamily	2,094	3,805	5,800	6,011	5,920	5,916	5,932	5,970
41	*Federal land banks*	*9,107*	*11,071*	*13,863*	*16,563*	*17,264*	*17,978*	*18,568*	*19,127*
42	1- to 4-family	13	123	406	549	563	575	586	603
43	Farm	9,094	10,948	13,457	16,014	16,701	17,403	17,982	18,524
44	*Federal Home Loan Mortgage Corp.*	*1,789*	*2,604*	*4,586*	*4,987*	*4,602*	*4,529*	*4,269*	*4,269*
45	1- to 4-family	1,754	2,446	4,217	4,588	4,247	4,166	3,917	3,889
46	Multifamily	35	158	369	399	355	363	352	380
47	**Mortgage pools or trusts**[2]	**14,404**	**18,040**	**23,799**	**34,138**	**37,684**	**41,225**	**44,960**	**49,801**
48	*Government National Mortgage Assn.*	*5,504*	*7,890*	*11,769*	*18,257*	*20,479*	*23,634*	*26,725*	*30,572*
49	1- to 4-family	5,353	7,561	11,249	17,538	19,693	22,821	25,841	29,583
50	Multifamily	151	329	520	719	786	813	884	989
51	*Federal Home Loan Mortgage Corp.*	*441*	*766*	*757*	*1,598*	*1,999*	*2,153*	*2,506*	*2,671*
52	1- to 4-family	331	617	608	1,349	1,698	1,831	2,141	2,282
53	Multifamily	110	149	149	249	301	322	365	389
54	*Farmers Home Admin.*	*8,459*	*9,384*	*11,273*	*14,283*	*15,206*	*15,438*	*15,729*	*16,558*
55	1- to 4-family	5,017	5,458	6,782	9,194	9,516	9,670	9,587	10,219
56	Multifamily	131	138	116	295	542	541	535	532
57	Commercial	867	1,124	1,473	1,948	2,122	2,104	2,291	2,440
58	Farm	2,444	2,664	2,902	2,846	3,026	3,123	3,316	3,367
59	**Individuals and others**[3]	**98,856**	**112,160**	**117,833**	**119,221**	**120,183**	**122,366**	**123,468**	**124,436**
60	1- to 4-family	45,040	51,112	53,331	56,378	57,312	59,024	60,454	61,378
61	Multifamily	21,465	23,982	24,276	22,017	21,738	21,533	20,540	19,910
62	Commercial	19,043	21,303	23,085	22,489	22,259	22,195	22,100	22,044
63	Farm	13,308	15,763	17,141	18,337	18,874	19,614	20,374	21,104

1 Includes loans held by nondeposit trust companies but not bank trust departments.

2 Outstanding principal balances of mortgages backing securities insured or guaranteed by the agency indicated.

3 Other holders include mortgage companies, real estate investment trusts, State and local credit agencies, State and local retirement funds, noninsured pension funds, credit unions, and U.S. agencies for which amounts are small or separate data are not readily available.

NOTE.—Based on data from various institutional and Govt. sources, with some quarters estimated in part by Federal Reserve in conjunction with the Federal Home Loan Bank Board and the Dept. of Commerce. Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations where required, are estimated mainly by Federal Reserve. Multifamily debt refers to loans on structures of 5 or more units.

1.55 CONSUMER INSTALMENT CREDIT Total Outstanding, and Net Change

Millions of dollars

	Holder, and type of credit	1974	1975	1976	1976						1977
					July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
		Amounts outstanding (end of period)									
1	**Total**	**155,384**	**162,237**	**178,775**	**168,674**	**171,160**	**172,918**	**173,930**	**175,333**	**178,775**	**177,975**
	By holder:										
2	Commercial banks	75,846	78,703	85,379	81,930	82,961	83,714	84,152	84,278	85,379	85,051
3	Finance companies	36,208	36,695	39,642	38,026	38,398	38,575	38,809	39,129	39,642	39,665
4	Credit unions	22,116	25,354	30,546	28,234	28,956	29,600	29,711	30,053	30,546	30,410
5	Retailers[1]	17,933	18,002	19,178	16,660	16,911	17,012	17,205	17,726	19,178	18,693
6	Others[2]	3,281	3,483	4,030	3,824	3,934	4,017	4,053	4,147	4,030	4,156
	By type of credit:										
7	*Automobile*	*50,392*	*53,028*	*60,498*	*57,659*	*58,665*	*59,270*	*59,717*	*60,002*	*60,498*	*60,349*
8	Commercial banks	30,994	31,534	35,313	33,877	34,414	34,701	35,009	35,095	35,313	35,284
9	Purchased	18,687	18,353	19,642	19,151	19,404	19,495	19,611	19,575	19,642	19,566
10	Direct	12,306	13,181	15,671	14,726	15,010	15,206	15,398	15,520	15,671	15,719
11	Finance companies	10,618	11,439	13,059	12,573	12,748	12,808	12,901	12,957	13,059	12,973
12	Credit unions	8,414	9,653	11,633	10,749	11,024	11,270	11,311	11,442	11,633	11,579
13	Others	366	402	493	460	479	491	496	508	493	513
	Mobile homes:										
14	Commercial banks	8,972	8,704	8,233	8,384	8,379	8,340	8,294	8,254	8,233	8,146
15	Finance companies	3,524	3,451	3,277	3,333	3,323	3,319	3,309	3,295	3,277	3,248
16	*Home improvement*	*7,754*	*8,004*	*8,773*	*8,452*	*8,562*	*8,665*	*8,726*	*8,790*	*8,773*	*8,736*
17	Commercial banks	4,694	4,965	5,381	5,192	5,263	5,318	5,359	5,388	5,381	5,340
	Revolving credit:										
18	Bank credit cards	8,281	9,501	11,075	9,725	9,924	10,153	10,232	10,329	11,075	10,996
19	Bank check credit	2,797	2,810	3,010	2,835	2,870	2,922	2,933	2,935	3,010	3,031
20	*All other*	*73,664*	*76,738*	*83,910*	*78,286*	*79,438*	*80,249*	*80,719*	*81,728*	*83,910*	*83,469*
21	Commercial banks, total	20,108	21,188	22,368	21,917	22,112	22,280	22,325	22,277	22,368	22,254
22	Personal loans	13,771	14,629	15,606	15,148	15,308	15,450	15,534	15,517	15,606	15,569
23	Finance companies, total	21,717	21,655	23,178	21,983	22,192	22,316	22,469	22,748	23,178	23,319
24	Personal loans	16,961	17,681	19,043	18,079	18,275	18,371	18,509	18,773	19,043	19,002
25	Credit unions	13,037	14,937	17,993	16,635	17,060	17,438	17,505	17,706	17,993	17,915
26	Retailers	17,933	18,002	19,178	16,660	16,911	17,012	17,205	17,726	19,178	18,693
27	Others	869	956	1,193	1,091	1,163	1,203	1,215	1,271	1,193	1,288
		Net change (during period)[3]									
28	**Total**	**8,952**	**6,843**	**16,539**	**1,303**	**1,403**	**1,481**	**1,564**	**1,243**	**1,823**	**1,918**
	By holder:										
29	Commercial banks	3,975	2,851	6,678	619	518	697	671	381	913	565
30	Finance companies	806	483	2,946	264	169	233	317	245	364	481
31	Credit unions	2,507	3,238	5,192	365	386	483	280	395	537	416
32	Retailers	1,538	69	1,176	116	183	24	263	98	64	249
33	Others	126	202	547	−61	148	45	33	124	−55	207
	By type of credit:										
34	*Automobile*	*327*	*2,631*	*7,470*	*556*	*621*	*605*	*528*	*477*	*1,013*	*758*
35	Commercial banks	−508	535	3,779	327	377	376	350	221	652	418
36	Purchased	−310	−340	1,289	60	159	125	117	70	330	160
37	Direct	198	875	2,490	267	218	251	233	151	322	258
38	Finance companies	−100	821	1,620	108	62	28	77	98	146	99
39	Credit unions	958	1,239	1,980	135	136	172	105	144	207	174
40	Other	−23	36	91	−13	46	28	−4	14	8	66
	Mobile homes:										
41	Commercial banks	632	−268	−471	−28	−35	−53	−56	−43	32	−43
42	Finance companies	168	−73	−174	−9	−16	−16	−16	−16	−16	−18
43	*Home improvement*	*804*	*248*	*768*	*19*	*39*	*65*	*73*	*103*	*73*	*130*
44	Commercial banks	611	271	416	22	25	43	44	55	54	36
	Revolving credit:										
45	Bank credit cards	1,443	1,220	1,576	171	86	166	123	71	−33	28
46	Bank check credit	543	14	199	27	−6	17	27	6	7	41
47	*All other*	*5,036*	*3,072*	*7,172*	*567*	*714*	*698*	*884*	*645*	*747*	*1,023*
48	Commercial banks, total	1,255	1,080	1,180	101	71	148	183	72	199	85
49	Personal loans	898	858	977	70	46	108	161	47	148	101
50	Finance companies, total	803	−64	1,523	170	126	223	258	163	236	401
51	Personal loans	479	717	1,362	143	106	198	237	161	113	178
52	Credit unions	1,473	1,900	3,056	220	240	297	166	239	313	227
53	Retailers	1,538	69	1,176	116	183	24	263	98	64	249
54	Others	−33	87	237	−39	96	5	15	73	−66	60

1 Excludes 30-day charge credit held by retailers, oil and gas companies, and travel and entertainment companies.

2 Mutual savings banks, savings and loan associations, and auto dealers.

3 Net change equals extensions minus liquidations (repayments, charge-offs, and other credits); figures for all months are seasonally adjusted.

NOTE.- Total consumer noninstalment credit outstanding - credit scheduled to be repaid in a lump sum, including single-payment loans, charge accounts, and service credit amounted to $39.0 billion at the end of 1976, $35.0 billion at the end of 1975, and $33.4 billion at the end of 1974. Comparable data for Dec. 31, 1977, will be published in the *Bulletin* for February 1978.

1.56 CONSUMER INSTALMENT CREDIT Extensions and Liquidations

Millions of dollars

	Holder, and type of credit	1974	1975	1976	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
							Extensions[1]				
1	**Total**	**160,008**	**163,483**	**186,221**	**15,240**	**15,685**	**15,775**	**16,055**	**15,763**	**16,702**	**16,870**
	By holder:										
2	Commercial banks	72,605	77,131	88,666	7,358	7,487	7,546	7,618	7,486	8,182	7,546
3	Finance companies	35,644	32,582	35,956	2,861	2,965	3,072	3,148	3,059	3,157	3,431
4	Credit unions	22,403	24,151	28,829	2,329	2,313	2,424	2,350	2,395	2,688	2,683
5	Retailers[2]	27,034	27,049	29,569	2,533	2,548	2,463	2,673	2,467	2,480	2,775
6	Others[3]	2,322	2,570	3,201	159	372	271	266	356	194	436
	By type of credit:										
7	*Automobile*	*43,209*	*48,103*	*55,807*	*4,477*	*4,712*	*4,769*	*4,587*	*4,632*	*5,263*	*4,940*
8	Commercial banks	26,406	28,333	32,687	2,680	2,762	2,846	2,770	2,691	3,170	2,892
9	Purchased	15,576	15,761	17,600	1,417	1,480	1,511	1,479	1,426	1,723	1,544
10	Direct	10,830	12,572	15,087	1,263	1,282	1,335	1,291	1,265	1,446	1,349
11	Finance companies	8,630	9,598	11,210	891	937	891	904	927	992	964
12	Credit unions	7,788	9,702	11,336	879	928	963	875	957	1,051	974
13	Others	385	470	574	27	84	69	37	57	51	110
	Mobile homes:										
14	Commercial banks	3,486	2,681	2,449	223	186	200	178	207	267	195
15	Finance companies	1,413	771	690	59	54	53	59	54	53	50
16	*Home improvement*	*4,571*	*4,398*	*5,034*	*381*	*400*	*434*	*463*	*464*	*461*	*494*
17	Commercial banks	2,789	2,722	3,036	240	242	266	282	276	288	262
	Revolving credit:										
18	Bank credit cards	17,098	20,428	25,481	2,152	2,183	2,165	2,198	2,181	2,217	2,117
19	Bank check credit	4,227	4,024	4,832	401	413	375	413	410	426	462
20	*All other*	*86,004*	*83,079*	*91,928*	*7,546*	*7,737*	*7,779*	*8,158*	*7,815*	*8,015*	*8,612*
21	Commercial banks, total	18,599	18,944	20,182	1,661	1,702	1,693	1,777	1,721	1,815	1,618
22	Personal loans	13,176	13,386	14,463	1,174	1,197	1,193	1,286	1,238	1,317	1,213
23	Finance companies, total	25,316	22,135	24,014	1,907	1,970	2,125	2,182	2,072	2,108	2,413
24	Personal loans	16,691	17,333	19,610	1,535	1,607	1,745	1,776	1,696	1,688	1,787
25	Credit unions	14,228	13,992	16,911	1,403	1,338	1,410	1,426	1,389	1,582	1,656
26	Retailers	27,034	27,049	29,569	2,533	2,548	2,463	2,673	2,467	2,480	2,775
27	Others	827	959	1,253	43	180	87	100	166	30	151
							Liquidations[1]				
28	**Total**	**151,056**	**156,640**	**169,682**	**13,937**	**14,282**	**14,294**	**14,491**	**14,520**	**14,879**	**14,952**
	By holder:										
29	Commercial banks	68,630	74,280	81,988	6,739	6,970	6,849	6,947	7,105	7,269	6,981
30	Finance companies	34,838	32,099	33,010	2,597	2,796	2,839	2,831	2,814	2,793	2,949
31	Credit unions	19,896	20,913	23,637	1,964	1,927	1,941	2,070	2,000	2,151	2,267
32	Retailers[2]	25,496	26,980	28,393	2,417	2,365	2,439	2,410	2,369	2,416	2,526
33	Others[3]	2,196	2,368	2,654	220	224	226	233	232	249	228
	By type of credit:										
34	*Automobile*	*42,883*	*45,472*	*48,337*	*3,922*	*4,090*	*4,165*	*4,059*	*4,155*	*4,250*	*4,183*
35	Commercial banks	26,915	27,798	28,908	2,354	2,385	2,470	2,420	2,470	2,517	2,474
36	Purchased	15,886	16,101	16,311	1,357	1,321	1,386	1,363	1,356	1,393	1,384
37	Direct	11,029	11,697	12,597	996	1,064	1,084	1,058	1,114	1,124	1,090
38	Finance companies	8,730	8,777	9,590	784	874	862	827	829	846	866
39	Credit unions	6,830	8,463	9,356	745	792	791	770	813	843	800
40	Others	408	434	483	39	39	42	42	43	43	43
	Mobile homes:										
41	Commercial banks	2,854	2,949	2,921	251	222	253	233	250	234	238
42	Finance companies	1,245	844	864	68	70	69	74	70	70	67
43	*Home improvement*	*3,767*	*4,150*	*4,266*	*362*	*361*	*369*	*390*	*360*	*388*	*364*
44	Commercial banks	2,178	2,451	2,620	218	216	223	239	221	234	227
	Revolving credit:										
45	Bank credit cards	15,655	19,208	23,905	1,981	2,097	2,000	2,074	2,110	2,250	2,089
46	Bank check credit	3,684	4,010	4,632	374	419	358	386	404	419	421
47	*All other*	*80,969*	*80,007*	*84,757*	*6,979*	*7,023*	*7,081*	*7,274*	*7,170*	*7,268*	*7,590*
48	Commercial banks, total	17,345	17,864	19,002	1,560	1,631	1,545	1,594	1,649	1,615	1,533
49	Personal loans	12,278	12,528	13,486	1,104	1,151	1,085	1,125	1,191	1,169	1,111
50	Finance companies, total	24,513	22,199	22,491	1,737	1,844	1,902	1,924	1,909	1,872	2,012
51	Personal loans	16,212	16,616	18,248	1,392	1,501	1,547	1,539	1,535	1,575	1,608
52	Credit unions	12,755	12,092	13,855	1,183	1,098	1,113	1,260	1,150	1,268	1,429
53	Retailers	25,496	26,980	28,393	2,417	2,365	2,439	2,410	2,369	2,416	2,526
54	Others	860	872	1,016	82	85	82	86	93	96	90

1 Monthly figures are seasonally adjusted.

2 Excludes 30-day charge credit held by retailers, oil and gas companies, and travel and entertainment companies.

3 Mutual savings banks, savings and loan associations, and auto dealers.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; half-year data are at seasonally adjusted annual rates

	Transaction category, or sector	1971	1972	1973	1974	1975	1976	1975 H1	1975 H2	1976 H1	1976 H2	
1	**NONFINANCIAL SECTORS**	**151.0**	**176.9**	**197.6**	**188.8**	**210.4**	**257.7**	**184.2**	**236.5**	**238.3**	**277.2**	1
2	*Excluding equities*	*139.6*	*166.4*	*190.0*	*185.0*	*200.3*	*247.3*	*173.8*	*226.9*	*224.7*	*269.9*	2
	By sector and/or instrument:											
3	U.S. Govt.	24.7	15.2	8.3	12.0	85.2	68.9	80.8	89.6	71.7	66.2	3
4	Public debt securities	26.0	14.3	7.9	12.0	85.8	69.1	82.0	89.7	71.8	66.5	4
5	Agency issues and mortgages	−1.3	1.0	.4	*	−.6	−.2	−1.2	−.1	−.1	.4	5
6	**All other nonfinancial sectors**	**126.3**	**161.7**	**189.4**	**176.8**	**125.2**	**188.8**	**103.4**	**146.9**	**166.6**	**211.0**	6
7	Corporate equities	11.5	10.5	7.7	3.8	10.0	10.5	10.5	9.6	13.6	7.3	7
8	Debt instruments	114.8	151.2	181.7	173.0	115.1	178.3	93.0	137.3	153.0	203.7	8
9	**Private domestic nonfinancial sectors**	**121.1**	**157.7**	**183.1**	**161.6**	**112.2**	**168.5**	**94.9**	**129.4**	**151.1**	**185.8**	9
10	Corporate equities	11.4	10.9	7.9	4.1	9.9	10.1	10.3	9.5	13.3	6.9	10
11	*Debt instruments*	*109.7*	*146.8*	*175.3*	*157.5*	*102.3*	*158.4*	*84.6*	*119.9*	*137.8*	*178.9*	11
12	*Debt capital instruments*	*86.8*	*102.8*	*106.7*	*101.2*	*101.3*	*122.0*	*97.5*	*105.1*	*110.6*	*133.4*	12
13	State and local obligations	17.5	15.4	16.3	19.6	17.3	18.2	16.2	18.4	17.9	18.6	13
14	Corporate bonds	18.8	12.2	9.2	19.7	27.2	23.7	33.4	21.0	20.7	26.7	14
	Mortgages:											
15	Home	28.6	42.6	46.4	34.6	40.8	59.1	33.5	48.1	53.5	64.8	15
16	Multifamily residential	9.7	12.7	10.4	7.0	−.1	1.3	*	−.2	.7	1.9	16
17	Commercial	9.8	16.4	18.9	15.1	10.9	12.8	8.7	13.1	11.9	13.7	17
18	Farm	2.4	3.6	5.5	5.1	5.2	6.9	5.6	4.8	6.0	7.8	18
19	*Other debt instruments*	*22.8*	*44.0*	*68.6*	*56.3*	*1.0*	*36.4*	*−12.8*	*14.8*	*27.2*	*45.5*	19
20	Consumer credit	11.6	18.6	21.7	9.8	8.5	20.5	1.1	16.0	19.4	21.6	20
21	Bank loans n.e.c.	6.5	18.1	34.8	26.2	−14.5	−2.2	23.5	5.5	−12.9	8.6	21
22	Open market paper	−.4	.8	2.5	6.8	−2.2	3.5	−.2	−4.2	8.2	−1.3	22
23	Other	5.1	6.5	9.6	13.5	9.1	14.6	9.7	8.5	12.6	16.5	23
24	*By borrowing sector*	*121.1*	*157.7*	*183.1*	*161.6*	*112.2*	*168.5*	*94.9*	*129.4*	*151.1*	*185.8*	24
25	State and local governments	17.8	15.2	14.8	18.6	14.9	17.7	13.9	15.9	16.2	19.3	25
26	Households	42.1	64.8	73.5	45.2	49.7	80.2	39.0	60.4	71.9	88.5	26
27	Farm	4.5	5.8	9.7	7.9	9.4	12.7	9.4	9.4	11.9	13.5	27
28	Nonfarm noncorporate	10.3	13.1	12.3	6.7	1.2	4.7	−.8	3.2	3.8	5.7	28
29	Corporate	46.4	58.8	72.9	83.1	37.1	53.1	33.5	40.6	47.3	58.8	29
30	**Foreign**	**5.2**	**4.0**	**6.2**	**15.3**	**13.0**	**20.3**	**8.5**	**17.4**	**15.4**	**25.2**	30
31	Corporate equities	*	−.4	−.2	−.2	.1	.4	.1	.1	.3	.4	31
32	*Debt instruments*	*5.2*	*4.4*	*6.4*	*15.5*	*12.8*	*20.0*	*8.4*	*17.3*	*15.1*	*24.8*	32
33	Bonds	.9	1.0	1.0	2.1	6.2	8.8	5.7	6.7	7.3	10.3	33
34	Bank loans n.e.c.	2.1	3.0	2.8	4.7	4.0	5.0	.6	7.4	3.8	6.1	23
35	Open market paper	.3	−1.0	.9	7.1	.1	2.5	−1.2	1.0	.8	4.2	35
36	U.S. Govt. loans	1.8	1.5	1.7	1.6	2.8	3.7	3.3	2.2	3.2	4.2	36
37	MEMO: U.S. Govt. cash balance	3.2	−.3	−1.7	−4.6	2.9	2.8	.5	5.2	11.1	−5.4	37
	Totals net of changes in U.S. Govt. cash balance:											
38	Total funds raised	147.8	177.2	199.3	193.4	207.5	254.9	183.7	231.3	227.2	282.6	38
39	By U.S. Govt.	21.6	15.5	9.9	16.6	82.3	66.1	80.3	84.4	60.6	71.6	39
40	**FINANCIAL SECTORS**	**17.0**	**29.1**	**56.7**	**43.0**	**14.8**	**29.4**	**14.4**	**15.3**	**30.5**	**28.3**	40
	By instrument:											
41	*U.S. Govt. related*	*5.9*	*8.4*	*19.9*	*23.1*	*13.5*	*17.4*	*14.0*	*13.1*	*18.0*	*16.9*	41
42	Sponsored credit agencies	1.1	3.5	16.3	16.6	2.3	2.4	1.4	3.3	3.9	.9	42
43	Mortgage pool securities	4.8	4.9	3.6	5.8	10.3	15.2	11.5	9.2	14.2	16.2	43
44	Loans from U.S. Govt.				.7	.9	−.2	1.1	.6	*	−.3	44
45	*Private financial sectors*	*11.1*	*20.7*	*36.8*	*19.9*	*1.3*	*11.9*	*.4*	*2.1*	*12.4*	*11.4*	45
46	Corporate equities	3.5	2.8	1.5	1.0	1.2	.7	1.2	1.2	.3	1.1	46
47	*Debt instruments*	*7.6*	*18.0*	*35.3*	*18.9*	*.1*	*11.2*	*−.8*	*1.0*	*12.1*	*10.3*	47
48	Corporate bonds	3.8	5.1	3.5	2.1	2.9	5.7	2.5	3.3	7.2	4.3	48
49	Mortgages	2.1	1.7	−1.2	−1.3	2.3	2.0	1.2	3.4	1.2	2.8	49
50	Bank loans n.e.c.	3.5	6.8	14.0	7.5	−3.9	−3.9	−4.7	−3.2	−2.8	−4.9	50
51	Open market paper and Rp's	.9	4.4	11.8	3.9	2.8	9.3	7.6	−1.9	8.7	9.9	51
52	Loans from FHLB's	−2.7	*	7.2	6.7	−4.0	−2.0	−7.3	−.6	−2.3	−1.7	52
	By sector:											
53	Sponsored credit agencies	1.1	3.5	16.3	17.3	3.2	2.2	2.5	4.0	3.9	.7	53
54	Mortgage pools	4.8	4.9	3.6	5.8	10.3	15.2	11.5	9.2	14.2	16.2	54
55	*Private financial sectors*	*11.1*	*20.7*	*36.8*	*19.9*	*1.3*	*11.9*	*.4*	*2.1*	*12.4*	*11.4*	55
56	Commercial banks	2.4	4.8	8.1	−1.1	1.7	9.3	5.7	−2.3	11.9	6.8	56
57	Bank affiliates	−.4	.7	2.2	3.5	.3	−.8	.9	−.3	−1.3	−.3	57
58	Foreign banking agencies	1.6	.8	5.1	2.9	−.3	−.5	−.9	.2	−1.5	.5	58
59	Savings and loan associations	−.1	2.0	6.0	6.3	−2.1	*	−7.8	3.6	−.7	.8	59
60	Other insurance companies	.6	.5	.5	.9	.9	1.0	.9	1.0	1.0	1.0	60
61	Finance companies	2.7	6.2	9.4	4.5	.7	5.4	−.8	2.1	6.6	4.3	61
62	REIT's	2.9	6.3	6.5	1.1	−1.9	−1.4	−1.6	−2.2	−1.7	−1.0	62
63	Open-end investment companies	1.3	−.5	−1.2	−.5	.8	−.9	1.5	.1	−1.1	−.7	63
64	Money market funds				2.4	1.3	−.3	2.6	*	−.7	.2	64
65	**ALL SECTORS, by instrument**	**168.1**	**206.0**	**254.3**	**231.8**	**225.2**	**287.1**	**198.6**	**251.8**	**268.7**	**305.5**	65
66	Investment company shares	1.3	−.5	−1.2	−.5	.8	−.9	1.5	.1	−1.1	−.7	66
67	Other corporate equities	13.7	13.8	10.4	5.4	10.4	12.1	10.2	10.7	15.1	9.1	67
68	*Debt instruments*	*153.1*	*192.8*	*245.2*	*227.0*	*214.0*	*275.9*	*187.0*	*241.0*	*254.8*	*297.1*	68
69	U.S. Govt. securities	30.7	23.7	28.3	34.5	98.0	86.6	93.6	102.4	89.9	83.4	69
70	State and local obligations	17.5	15.4	16.3	19.6	17.3	18.2	16.2	18.4	17.9	18.6	70
71	Corporate and foreign bonds	23.5	18.4	13.6	23.9	36.3	38.2	41.6	31.0	35.2	41.3	71
72	Mortgages	52.5	76.8	79.9	60.5	59.0	82.0	49.1	69.0	73.2	90.8	72
73	Consumer credit	11.6	18.6	21.7	9.8	8.5	20.5	1.1	16.0	19.4	21.6	73
74	Bank loans n.e.c.	12.1	27.8	51.6	38.4	−14.4	−1.1	−27.6	−1.2	−11.9	9.8	74
75	Open market paper and Rp's	.9	4.1	15.2	17.8	.5	15.3	6.2	−5.1	17.7	12.8	75
76	Other loans	4.2	8.0	18.5	22.5	8.7	16.1	6.8	10.7	13.5	18.8	76

NOTE.—Full statements for sectors and transaction types quarterly, and annually for flows and for amounts outstanding, may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, ~~unless noted otherwise~~; half-year data are at seasonally adjusted annual rates

	Transaction category or sector	1971	1972	1973	1974	1975	1976	1975 H1	1975 H2	1976 H1	1976 H2	
1	**Total funds advanced in credit markets to nonfinancial sectors**	**139.6**	**166.4**	**190.0**	**185.0**	**200.3**	**247.3**	**173.8**	**226.9**	**224.7**	**269.9**	1
	By public agencies and foreign:											
2	*Total net advances*	*43.4*	*19.8*	*34.2*	*52.7*	*44.2*	*54.5*	*51.9*	*36.6*	*50.8*	*58.3*	2
3	U.S. Govt. securities	34.4	7.6	9.6	11.9	22.5	25.6	32.6	12.4	26.6	24.7	3
4	Residential mortgages	7.0	7.0	8.2	14.7	16.2	12.7	15.9	16.5	11.1	14.4	4
5	FHLB advances to S&L's	-2.7	*	7.2	6.7	-4.0	-2.0	-7.3	-.6	-2.3	-1.7	5
6	Other loans and securities	4.6	5.1	9.2	19.5	9.5	18.1	10.6	8.3	15.4	20.9	6
	Totals advanced, by sector											
7	U.S. Govt.	2.8	1.8	2.8	9.8	15.1	10.7	14.9	15.2	5.9	15.5	7
8	Sponsored credit agencies	5.2	9.2	21.4	25.6	14.5	20.3	15.9	13.2	20.0	20.6	8
9	Monetary authorities	8.9	.3	9.2	6.2	8.5	9.8	7.0	10.1	13.6	6.1	9
10	Foreign	26.4	8.4	.7	11.2	6.1	13.8	14.2	-2.0	11.4	16.1	10
11	*Agency borrowing not included in line 1*	*5.9*	*8.4*	*19.9*	*23.1*	*13.5*	*17.4*	*14.0*	*13.1*	*18.0*	*16.9*	11
	Private domestic funds advanced											
12	*Total net advances*	*102.1*	*155.0*	*175.7*	*155.3*	*169.6*	*210.2*	*135.9*	*203.4*	*191.9*	*228.4*	12
13	U.S. Govt. securities	-3.7	16.1	18.7	22.6	75.5	61.0	61.0	90.0	63.3	58.8	13
14	State and local obligations	17.5	15.4	16.3	19.6	17.3	18.2	16.2	18.4	17.9	18.6	14
15	Corporate and foreign bonds	19.5	13.1	10.0	20.9	32.8	31.5	38.9	26.7	27.0	35.9	15
16	Residential mortgages	31.2	48.1	48.5	26.9	24.4	47.6	17.7	31.1	43.1	52.1	16
17	Other mortgages and loans	35.0	62.3	89.3	71.9	15.7	49.9	-5.2	36.5	38.4	61.4	17
18	LESS: FHLB advances	-2.7	*	7.2	6.7	4.0	-2.0	-7.3	-.6	-2.3	1.7	18
	Private financial intermediation											
19	*Credit market funds advanced by private financial institutions*	*109.7*	*149.4*	*163.8*	*126.2*	*116.0*	*168.2*	*97.7*	*134.3*	*141.3*	*195.1*	19
20	Commercial banks	50.6	70.5	86.5	64.6	27.6	42.6	13.5	41.7	20.8	64.5	20
21	Savings institutions	39.1	47.2	36.0	27.0	51.0	72.3	49.8	52.2	71.1	73.5	21
22	Insurance and pension funds	14.2	17.8	23.8	30.1	39.3	46.5	36.4	42.3	44.3	48.8	22
23	Other finance	5.9	13.8	17.4	4.5	-1.8	6.7	-1.9	-1.8	5.1	8.3	23
24	*Sources of funds*	*109.7*	*149.4*	*163.8*	*126.2*	*116.0*	*168.2*	*97.7*	*134.3*	*141.3*	*195.1*	24
25	Private domestic deposits	89.4	100.9	86.4	69.4	90.5	108.1	90.3	90.6	88.8	127.3	25
26	Credit market borrowing	7.6	18.0	35.3	18.9	.1	11.2	-.8	1.0	12.1	10.3	26
27	*Other sources*	*12.6*	*30.5*	*42.1*	*37.8*	*25.4*	*48.9*	*8.2*	*42.7*	*40.4*	*57.5*	27
28	Foreign funds	-3.9	5.3	6.9	14.5	.4	4.9	-5.7	5.0	2.1	7.6	28
29	Treasury balances	2.2	.7	-1.0	-5.1	-1.7	.2	-3.5	.1	3.8	-4.1	29
30	Insurance and pension reserves	8.6	11.6	18.4	26.0	29.9	35.6	27.4	32.5	33.6	37.6	30
31	Other, net	5.7	12.8	17.8	2.4	-2.4	8.6	-10.1	5.2	.9	16.4	31
	Private domestic nonfinancial investors											
32	*Direct lending in credit markets*	*	*23.6*	*47.2*	*40.8*	*53.7*	*53.1*	*37.4*	*70.1*	*62.7*	*43.7*	32
33	U.S. Govt. securities	-10.8	4.2	19.4	17.9	23.0	22.4	5.0	41.0	28.3	16.5	33
34	State and local obligations	.5	3.1	7.5	12.2	9.9	6.5	10.3	9.6	7.1	5.9	34
35	Corporate and foreign bonds	8.3	4.2	.9	5.3	10.4	5.9	12.9	7.9	6.4	5.4	35
36	Commercial paper	-1.1	3.0	12.5	4.6	3.1	6.3	3.5	2.7	9.4	3.2	36
37	Other	3.2	9.1	6.9	8.1	7.3	12.0	5.6	8.9	11.6	12.6	37
38	*Deposits and currency*	*92.8*	*105.3*	*90.3*	*75.7*	*96.7*	*115.8*	*95.7*	*97.7*	*93.0*	*138.5*	38
39	*Time and saving accounts*	*79.1*	*83.7*	*76.2*	*67.4*	*84.8*	*105.6*	*75.0*	*94.7*	*85.1*	*126.0*	39
40	Large negotiable CD's	7.7	8.7	18.4	23.6	9.7	-15.1	-22.3	2.9	-23.0	7.4	40
41	Other at commercial banks	31.8	29.7	29.4	21.4	35.4	51.5	34.4	36.4	42.1	60.9	41
42	At savings institutions	39.6	45.4	28.4	22.4	59.2	69.2	63.0	55.4	66.0	72.4	42
43	*Money*	*13.7*	*21.6*	*14.1*	*8.3*	*11.9*	*10.2*	*20.7*	*3.0*	*7.9*	*12.5*	43
44	Demand deposits	10.4	17.2	10.2	2.0	5.7	2.5	15.3	-4.0	3.7	1.3	44
45	Currency	3.4	4.4	3.9	6.3	6.2	7.7	5.4	7.1	4.1	11.2	45
46	**Total of credit market instr., deposits, and currency**	**92.9**	**129.0**	**137.5**	**123.7**	**150.4**	**168.9**	**133.1**	**167.8**	**155.7**	**182.1**	46
47	Private support rate (in per cent)	31.1	11.9	18.0	28.5	22.1	22.0	29.9	16.1	22.6	21.6	47
48	Private financial intermediation (in per cent)	107.4	96.4	93.2	81.2	68.4	80.0	71.9	66.0	73.6	85.4	48
49	Total foreign funds	22.5	13.7	7.6	25.7	5.7	18.6	8.5	3.0	13.5	23.8	49
	MEMO: Corporate equities not included above											
50	**Total net issues**	**15.0**	**13.3**	**9.2**	**4.9**	**11.2**	**11.2**	**11.7**	**10.8**	**14.0**	**8.4**	50
51	Mutual fund shares	1.3	-.5	-1.2	-.5	.8	-.9	1.5	.1	-1.1	-.7	51
52	Other equities	13.7	13.8	10.4	5.4	10.4	12.1	10.2	10.7	15.1	9.1	52
53	Acquisitions by financial institutions	17.8	15.3	13.3	5.5	8.3	10.4	9.2	7.4	11.8	9.1	53
54	Other net purchases	-2.9	-2.1	-4.1	-.7	2.9	.8	2.4	3.4	2.2	-.6	54

NOTES BY LINE NO.

1. Line 2 of p. A-44.
2. Sum of lines 3-6 or 7-10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by Federally sponsored credit agencies. Included below in lines 13 and 33. Includes all GNMA-guaranteed security issues backed by mortgage pools.
12. Line 1 less line 2 plus line 11. Also line 19 less line 26 plus line 32. Also sum of lines 27, 32, 39, and 44.
17. Includes farm and commercial mortgages.
25. Lines 39 plus 44.
26. Excludes equity issues and investment company shares. Includes line 18.
28. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates.
29. Demand deposits at commercial banks.
30. Excludes net investment of these reserves in corporate equities.
31. Mainly retained earnings and net miscellaneous liabilities.
32. Line 12 less line 19 plus line 26.
33-37. Lines 13-17 less amounts acquired by private finance. Line 37 includes mortgages.
45. Mainly an offset to line 9.
46. Lines 32 plus 38 or line 12 less line 27 plus line 45.
47. Line 2/line 1.
48. Line 19/line 12.
49. Lines 10 plus 28.
50, 52. Includes issues by financial institutions.

2.10 SELECTED MEASURES OF NONFINANCIAL BUSINESS ACTIVITY

1967 = 100 ~~except as noted~~; monthly and quarterly data are seasonally adjusted

	Measure	1974	1975[7]	1976	1976 July	Aug.	Sept.	Oct.	Nov.[r]	Dec.	1977 Jan.[p]	Feb.[e]
1	**Industrial production**	**129.3**	**117.8**	**129.8**	**130.7**	**131.3**	**130.8**	**130.4**	**131.8**	**133.0**	**131.9**	**133.2**
	Market groupings:											
2	*Products, total*	*129.3*	*119.3*	*129.3*	*129.8*	*130.3*	*129.7*	*129.6*	*131.7*	*133.8*	*133.0*	*134.1*
3	Final, total	125.1	118.2	127.3	127.6	128.3	127.4	127.4	129.8	132.3	130.9	131.9
4	Consumer goods	128.9	124.0	136.8	136.8	137.5	136.2	136.9	139.1	142.1	140.2	140.9
5	Equipment	120.0	110.2	114.3	114.9	115.7	115.2	114.4	116.9	118.8	117.9	119.5
6	Intermediate	135.3	123.1	136.9	137.6	137.8	138.7	138.3	138.8	139.7	140.6	142.0
7	Materials	132.4	115.5	130.5	132.2	133.0	132.5	131.6	131.9	132.1	130.2	131.7
	Industry groupings:											
8	Manufacturing	129.4	116.3	129.4	131.0	131.6	130.7	129.9	131.9	132.7	131.3	132.7
	Capacity utilization (per cent)[1] in:											
9	Manufacturing	84.2	73.6	80.1	80.9	81.1	80.4	79.7	80.8	r81.1	r80.0	r80.7
10	Industrial materials industries	87.7	73.6	80.3	81.2	81.6	81.0	80.3	80.3	r80.2	r78.9	r79.6
11	Construction contracts[2]	173.9	162.3	190.2	186.0	186.0	182.0	237.0	186.0	183.0	203.0	....
12	**Nonagricultural employment, total[3]**	**119.1**	**116.9**	**120.6**	**120.7**	**120.9**	**121.4**	**121.2**	**121.6**	**122.0**	**122.3**	**122.7**
13	Goods-producing, total	106.2	96.9	100.3	100.3	100.2	100.8	100.2	100.9	101.0	101.3	101.7
14	Manufacturing, total	103.1	94.3	97.5	97.4	97.6	98.2	97.4	98.0	98.2	98.8	98.8
15	Manufacturing, production-worker	102.1	91.3	95.2	95.2	95.2	96.1	94.9	95.6	95.7	96.5	96.6
16	Service-producing	126.1	127.8	131.7	131.9	132.2	132.6	132.7	132.9	133.5	133.8	134.2
17	**Personal income, total[4]**	**r184.1**	**r199.4**	**r219.1**	**r220.4**	**r221.1**	**r222.1**	**r224.9**	**r226.8**	**r229.7**	**r230.3**	....
18	Wages and salary disbursements	r178.9	r188.7	r208.3	r206.6	r208.8	r209.9	r211.3	r213.2	r217.6	r218.7	....
19	Manufacturing	r157.6	r157.9	r176.7	r177.5	r178.1	r178.9	r179.1	r182.4	r184.1	r185.3	....
20	*Disposable personal income*	180.5	198.5	r218.2	....	217.0	....	....	r218.1	....	....	....
21	Retail sales[5]	171.2	186.1	206.5	205.4	208.8	206.7	206.7	212.3	221.2	216.2	220.0
	Prices:[6]											
22	Consumer	147.7	161.2	170.5	171.1	171.9	172.6	173.3	173.8	174.3	175.3	....
23	Wholesale	160.1	174.1	182.9	184.3	183.7	184.7	185.2	185.6	187.1	188.0	190.0

1 Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, and Department of Commerce.

2 Index of dollar value of total construction contracts, including residential, nonresidential, and heavy engineering, from McGraw-Hill Informations Systems Company, F. W. Dodge Division.

3 Based on data in *Employment and Earnings* (U.S. Dept. of Labor). Series covers employees only, excluding personnel in the Armed Forces.

4 Based on data in *Survey of Current Business* (U.S. Dept. of Commerce). Series for disposable income is quarterly.

5 Based on Bureau of Census data published in *Survey of Current Business* (U.S. Dept. of Commerce).

6 Data without seasonal adjustment, as published in *Monthly Labor Review* (U.S. Dept. of Labor). Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Dept. of Labor.

7 Bureau of Labor Statistics revised these figures back to July 1975.

NOTE.—Basic data (not index numbers) for series mentioned in notes 3, 4, and 5, and indexes for series mentioned in notes 2 and 6 may also be found in the *Survey of Current Business* (U.S. Dept. of Commerce).

2.11 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

	Series	1976 Q1	1976 Q2	1976 Q3	1976 Q4	1976 Q1	1976 Q2	1976 Q3	1976 Q4	1976 Q1	1976 Q2	1976 Q3	1976 Q4
		Output (1967 = 100)				Capacity (per cent of 1967 output)				Utilization rate (per cent)			
1	**Manufacturing**	**126.7**	**129.4**	**131.1**	**131.3**	**160.4**	**161.3**	**162.3**	**163.2**	**79.0**	**80.2**	**80.8**	**80.4**
2	Primary processing	r133.3	136.6	139.3	138.7	166.2	167.5	168.8	170.1	80.2	r81.6	82.5	81.6
3	Advanced processing	122.9	125.2	126.3	127.4	157.2	158.0	158.8	159.6	78.2	r79.3	79.6	79.8
4	**Materials**	**r127.0**	**130.3**	**132.6**	**r131.7**	**160.6**	**161.7**	**163.1**	**164.3**	**r79.1**	**80.6**	**81.3**	**80.1**
5	Durable goods	120.8	126.1	130.7	128.3	164.4	165.5	166.7	167.8	73.5	76.2	78.4	76.4
6	Basic metal	103.7	110.8	117.1	108.2	142.4	143.1	143.7	144.4	72.8	77.4	81.5	74.9
7	Nondurable goods	145.0	146.9	146.6	r147.2	169.4	171.0	172.5	174.1	85.6	85.9	85.0	84.6
8	Textile, paper, and chemical	150.2	151.6	151.2	r151.9	176.5	178.3	180.1	182.0	85.1	85.0	84.0	83.5
9	Textile	116.5	115.5	114.4	111.4	138.2	139.0	139.8	140.6	84.3	83.1	81.8	r79.2
10	Paper	128.9	132.5	131.9	130.7	144.6	145.7	146.7	147.9	89.1	90.9	89.9	88.4
11	Chemical	173.6	175.3	r175.2	178.3	206.2	208.7	211.2	213.7	84.2	84.0	82.9	r83.4
12	Energy	r119.6	120.0	r119.8	120.8	140.3	141.5	142.7	143.9	85.3	84.8	84.0	83.9

2.12 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted~~; exceptions noted~~.

	Category	1974	1975	1976	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.
		Household survey data									
1	**Noninstitutional population**[1]	**150,827**	**153,449**	**156,048**	**156,367**	**156,595**	**156,788**	**157,006**	**157,176**	**157,381**	**157,584**
2	**Labor force (including Armed Forces)**[1]	**93,240**	**94,793**	**96,917**	**97,498**	**97,387**	**97,449**	**98,020**	**98,106**	**97,649**	**98,282**
3	Civilian labor force	91,011	92,613	94,773	95,351	95,242	95,302	95,871	95,960	95,516	96,145
	Employment:										
4	Nonagricultural industries[2]	82,443	81,403	84,188	84,462	84,516	84,428	84,972	85,184	85,468	85,872
5	Agriculture	3,492	3,380	3,297	3,372	3,278	3,310	3,248	3,257	3,090	3,090
	Unemployment:										
6	Number	5,076	7,830	7,288	7,517	7,448	7,564	7,651	7,517	6,958	7,183
7	*Rate (per cent of civilian labor force)*	*5.6*	*8.5*	*7.7*	*7.9*	*7.8*	*7.9*	*8.0*	*7.8*	*7.3*	*7.5*
8	**Not in labor force**	**r57,587**	**r58,655**	**r59,130**	**58,869**	**59,208**	**59,339**	**58,986**	**59,071**	**59,732**	**59,302**
		Establishment survey data									
9	**Nonagricultural payroll employment**[3]	**78,413**	**77,050**	**79,443**	**79,618**	**79,918**	**79,819**	**80,106**	**r80,344**	**r80,559**	**80,818**
10	Manufacturing	20,046	18,347	18,958	18,979	19,100	18,941	19,065	r19,095	r19,212	19,212
11	Mining	694	745	783	752	798	800	805	r808	r817	832
12	Contract construction	3,957	3,515	3,593	3,579	3,565	3,582	3,619	r3,605	r3,545	3,614
13	Transportation and public utilities	4,696	4,499	4,508	4,501	4,528	4,506	4,519	r4,553	r4,549	4,562
14	Trade	17,017	16,997	17,694	17,764	17,839	17,824	17,808	r17,898	r17,985	18,102
15	Finance	4,208	4,222	4,315	4,312	4,338	4,359	4,381	r4,403	r4,425	4,440
16	Service	13,617	14,008	14,645	14,751	14,798	14,819	14,873	r14,936	r15,007	15,059
17	Government	14,177	15,954	14,947	15,122	15,095	15,130	15,036	r15,046	r15,019	14,997

1 Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. From *Employment and Earnings* (U.S. Dept. of Labor).

2 Includes self-employed, unpaid family, and domestic service workers.

3 Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the February 1977 benchmark. From *Employment and Earnings* (U.S. Dept. of Labor).

2.13 INDUSTRIAL PRODUCTION

~~Unless otherwise noted, figures are indexes~~ (1967 = 100); monthly data are seasonally adjusted

	Grouping	1967 proportion	1976p average	1975 Dec.	1976 Jan.	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.r	1976 Dec.	1977 Jan.p	1977 Feb.e
						Major market groupings						
1	**Total index**	100.00	**129.8**	**124.4**	**125.7**	**131.3**	**130.8**	**130.4**	**131.8**	**133.0**	**131.9**	**133.2**
2	**Products**	60.71	**129.3**	**124.9**	**126.0**	**130.3**	**129.7**	**129.6**	**131.7**	**133.8**	**133.0**	**134.1**
3	*Final products*	*47.82*	*127.3*	*123.5*	*123.9*	*128.3*	*127.4*	*127.4*	*129.8*	*132.3*	*130.9*	*131.9*
4	Consumer goods	27.68	136.8	132.3	133.1	137.5	136.2	136.9	139.1	142.1	140.2	140.9
5	Equipment	20.14	114.3	111.5	111.2	115.7	115.2	114.4	116.9	118.8	117.9	119.5
6	Intermediate products	12.89	136.9	129.9	133.6	137.8	138.7	138.3	138.8	139.7	140.6	142.0
7	**Materials**	39.29	**130.5**	**123.3**	**125.3**	**133.0**	**132.5**	**131.6**	**131.9**	**132.1**	**130.2**	**131.7**
	Consumer goods											
8	*Durable consumer goods*	*7.89*	*141.5*	*134.0*	*134.7*	*143.7*	*138.4*	*139.4*	*143.7*	*151.4*	*146.0*	*145.4*
9	Automotive products	2.83	154.7	147.7	142.8	158.4	147.4	148.8	161.6	180.6	165.1	161.0
10	Autos and utility vehicles	2.03	149.8	140.0	133.4	158.2	139.1	137.9	154.6	180.3	158.8	154.3
11	Autos	1.90	132.0	122.8	118.9	137.7	120.9	121.5	139.1	159.8	136.9	132.8
12	Auto parts and allied goods	.80	167.2	167.0	167.4	158.4	168.6	176.6	179.3	181.1	180.5	178.0
13	Home goods	5.06	134.1	126.4	130.3	135.6	133.3	134.1	133.8	135.0	135.4	136.7
14	Appliances, A/C, and TV	1.40	115.7	101.1	107.8	119.1	111.4	115.8	115.3	111.7	113.8	115.1
15	Appliances and TV	1.33	118.6	104.4	110.6	121.9	115.1	118.6	117.6	113.8	116.5	....
16	Carpeting and furniture	1.07	144.3	142.0	144.8	145.0	146.3	147.0	143.6	145.1	140.9	....
17	Misc. home goods	2.59	139.9	133.6	136.6	140.7	139.8	138.6	139.9	143.6	144.7	146.0
18	*Nondurable consumer goods*	*19.79*	*134.9*	*131.5*	*132.5*	*134.9*	*135.3*	*135.8*	*137.1*	*138.4*	*137.8*	*139.0*
19	Clothing	4.29	126.6	123.9	127.4	123.2	123.0	125.9	126.4	126.4	....	....
20	Consumer staples	15.50	137.2	133.6	133.9	138.1	138.7	138.5	140.0	141.8	141.6	143.3
21	Consumer foods and tobacco	8.33	131.0	127.2	128.5	131.9	133.0	133.2	132.5	133.0	131.7	....
22	Nonfood staples	7.17	144.5	141.0	140.2	145.3	145.4	144.8	149.0	151.8	153.0	155.2
23	Consumer chemical products	2.63	166.4	159.7	157.3	168.8	169.2	168.3	174.4	177.9	177.9	....
24	Consumer paper products	1.92	113.3	113.4	113.3	113.9	111.9	109.9	113.8	117.7	118.0	....
25	Consumer energy products	2.62	145.3	142.8	142.4	144.8	145.9	146.9	149.0	150.4	153.7	....
26	Residential utilities	1.45	153.1	152.0	154.5	151.4	....	....	....	....	....	....
	Equipment											
27	*Business equipment*	*12.63*	*135.9*	*131.6*	*131.0*	*137.7*	*137.5*	*135.9*	*140.2*	*143.4*	*141.8*	*143.2*
28	Industrial equipment	6.77	127.7	124.5	123.5	128.1	129.8	129.9	131.3	133.5	132.2	133.0
29	Building and mining equip.	1.44	177.2	172.9	171.4	179.8	180.4	180.9	181.5	187.4	188.4	189.5
30	Manufacturing equipment	3.85	106.2	101.3	101.2	107.2	108.6	107.9	109.9	110.7	108.7	109.4
31	Power equipment	1.47	135.5	137.6	134.6	132.0	135.6	137.8	138.0	140.0	138.5	139.4
32	Commercial transit, farm equip.	5.86	145.3	139.7	139.7	148.7	146.1	142.7	150.5	154.9	153.1	154.9
33	Commercial equipment	3.26	173.0	164.4	165.0	176.2	176.8	177.5	179.7	186.3	186.2	186.9
34	Transit equipment	1.93	103.6	102.9	100.2	106.6	99.3	98.3	107.6	108.8	103.0	107.2
35	Farm equipment	.67	130.6	125.6	131.5	136.8	131.4	102.0	132.2	134.8	135.9	....
36	*Defense and space equipment*	*7.51*	*78.0*	*77.7*	*78.0*	*78.6*	*77.7*	*78.5*	*77.9*	*77.4*	*77.5*	*79.6*
	Intermediate products											
37	Construction supplies	6.42	132.0	124.1	126.8	134.1	134.3	134.0	135.7	135.6	135.0	136.4
38	Business supplies	6.47	141.6	135.9	140.3	141.5	143.0	142.5	141.7	132.8	146.2	....
39	Commercial energy products	1.14	156.6	147.9	158.1	156.4	156.4	154.0	155.4	155.6	160.8	....
	Materials											
40	*Durable goods materials*	*20.35*	*126.5*	*115.5*	*118.3*	*131.4*	*130.0*	*128.5*	*128.5*	*128.2*	*126.1*	*127.8*
41	Durable consumer parts	4.58	121.5	111.6	111.7	125.1	123.5	119.4	126.2	124.7	120.2	120.9
42	Equipment parts	5.44	133.9	123.9	125.7	138.0	138.3	138.0	137.2	138.8	135.7	139.3
43	Durable materials n.e.c.	10.34	124.9	112.9	117.4	130.6	128.4	127.5	124.9	123.9	123.9	125.0
44	Basic metal materials	5.57	110.0	96.1	101.9	120.0	113.9	112.0	106.3	104.7	104.0	....
45	*Nondurable goods materials*	*10.47*	*146.5*	*142.6*	*142.9*	*146.1*	*147.8*	*147.5*	*147.2*	*146.9*	*145.1*	*146.8*
46	Textile, paper, and chem. mat.	7.62	151.3	147.9	147.5	150.6	152.6	152.5	151.3	151.8	150.3	151.8
47	Textile materials	1.85	114.5	118.9	117.8	114.9	113.6	112.6	108.8	113.6	110.7	....
48	Paper materials	1.62	131.2	125.9	126.5	132.7	131.0	132.1	131.0	128.6	128.9	....
49	Chemical materials	4.15	175.7	169.5	168.9	173.4	178.2	178.2	178.3	177.9	176.3	....
50	Containers, nondurable	1.70	142.5	136.1	139.0	143.2	143.5	141.7	145.9	143.8	137.4	....
51	Nondurable materials n.e.c.	1.14	120.0	116.7	118.3	121.2	122.8	122.4	122.2	119.7	122.0	....
52	Energy materials	8.48	120.1	118.7	120.6	120.5	119.6	119.6	121.7	122.8	121.3	122.1
53	Primary energy	4.65	107.0	107.3	107.7	107.9	108.4	109.0	107.1	106.4	102.7	....
54	Converted fuel materials	3.82	136.0	132.3	136.3	136.0	133.2	132.7	139.5	142.8	144.0	....
	Supplementary groups											
55	Home goods and clothing	9.35	130.7	125.2	129.9	129.9	128.7	130.3	130.4	131.0	130.0	130.9
56	Energy, total	12.23	128.9	126.6	128.8	129.0	128.6	128.6	130.7	131.7	131.9	132.7
57	Products	3.76	148.7	144.5	147.2	148.2	149.1	149.1	150.9	151.9	156.0	....
58	Materials	8.48	120.1	118.7	120.6	120.5	119.6	119.6	121.7	122.8	121.3	....

For NOTE see opposite page.

2.13 Continued

	Grouping	SIC code	1967 proportion	1976[p] average	1975 Dec.	1976 Jan.	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.[r]	1976 Dec.	1977 Jan.[p]	1977 Feb.[e]
	Gross value of products in market structure (Annual rates, in billions of 1972 dollars)												
1	**Products, total**		[1]286.3	550.9	528.4	531.9	556.4	548.8	549.4	558.3	571.2	561.1	568.3
2	*Final products*		*[1]221.4*	*426.3*	*410.6*	*410.9*	*431.3*	*422.2*	*423.6*	*432.2*	*444.8*	*434.2*	*439.3*
3	Consumer goods		[1]156.3	302.9	292.0	292.3	304.6	300.7	302.2	307.4	315.5	308.8	311.5
4	Equipment		[1]65.3	123.6	118.9	119.1	126.7	121.7	121.4	125.0	129.3	125.5	128.1
5	Intermediate products		[1]64.9	124.5	117.9	120.8	125.1	126.6	126.0	126.2	126.3	126.7	129.0
	Major industry groupings												
6	*Mining and utilities*		*12.05*	*131.8*	*129.2*	*131.8*	*131.8*	*131.9*	*133.1*	*134.1*	*134.7*	*134.6*	*136.4*
7	Mining		6.36	114.1	112.9	113.6	114.4	115.7	116.7	116.2	116.3	113.5	115.4
8	Utilities		5.69	151.5	147.2	152.0	151.3	150.1	151.2	154.0	155.2	158.3	159.7
9	Electric		3.88	168.1	162.3	167.4	168.5	......	......	......	......	......	......
10	*Manufacturing*		*87.95*	*129.4*	*123.6*	*125.2*	*131.6*	*130.7*	*129.9*	*131.9*	*132.7*	*131.3*	*132.7*
11	Nondurable		35.97	140.9	136.9	138.4	140.9	142.6	142.2	143.5	143.8	143.3	145.0
12	Durable		51.98	121.4	114.4	115.8	125.1	122.4	121.5	123.8	125.1	122.9	124.1
	Mining:												
13	Metal mining	10	.51	122.8	117.9	122.2	127.5	123.6	127.4	128.1	130.2	136.4	......
14	Coal	11, 12	.69	116.7	109.9	111.2	112.6	121.3	132.3	125.1	123.4	88.8	100.2
15	Oil and gas extraction	13	4.40	112.0	113.1	112.5	112.3	113.3	112.5	112.4	112.9	113.6	114.2
16	Stone and earth minerals	14	.75	118.3	111.5	117.1	119.0	119.2	120.0	121.4	121.1	120.0	......
	Nondurable manufactures:												
17	Foods	20	8.75	132.1	128.5	129.2	133.4	135.7	134.7	134.7	134.9	134.0	......
18	Tobacco products	21	.67	117.5	116.0	117.3	114.8	115.4	118.3	119.7	119.1	......	......
19	Textile mill products	22	2.68	135.9	139.0	137.6	135.1	135.7	134.2	132.2	133.3	131.4	......
20	Apparel products	23	3.31	125.5	121.2	123.8	123.7	122.5	126.4	125.9	128.0	......	......
21	Paper and products	26	3.21	133.1	129.5	130.3	134.6	132.1	132.3	132.5	131.8	131.2	134.0
22	Printing and publishing	27	4.72	120.6	118.4	120.0	120.6	120.6	119.2	119.3	123.1	124.7	125.3
23	Chemicals and products	28	7.74	169.5	163.3	162.9	170.4	170.5	170.6	174.2	174.3	173.3	......
24	Petroleum products	29	1.79	132.4	126.3	125.7	133.8	134.1	130.2	135.8	137.1	139.8	144.0
25	Rubber & plastic products	30	2.24	199.3	185.3	188.4	186.1	212.4	211.1	215.7	210.5	210.1	......
26	Leather and products	31	.86	82.0	83.2	86.0	77.3	77.9	77.2	75.8	73.4	74.3	......
	Durable manufactures:												
27	Ordnance, pvt. & govt	19, 91	3.64	71.9	70.1	69.9	73.9	73.2	73.3	72.2	71.8	71.6	71.8
28	Lumber and products	24	1.64	125.5	116.4	123.5	128.1	128.7	130.7	129.0	127.5	132.5	......
29	Furniture and fixtures	25	1.37	132.7	130.3	132.7	134.4	133.0	134.5	134.0	136.0	133.8	......
30	Clay, glass, stone prod	32	2.74	135.8	129.4	128.6	138.1	138.4	138.4	142.2	141.6	135.5	......
31	Primary metals	33	6.57	108.0	92.6	98.1	118.6	114.1	109.9	107.3	102.7	99.4	101.7
32	Iron and steel		4.21	104.4	89.1	92.9	116.2	110.3	105.1	103.1	95.6	90.2	94.2
33	Fabricated metal prod	24	5.93	123.1	117.3	116.6	125.8	126.6	123.5	126.7	128.2	125.4	124.6
34	Nonelectrical machinery	35	9.15	134.4	128.6	129.0	136.4	136.8	134.1	137.5	141.0	139.7	140.5
35	Electrical machinery	36	8.05	131.7	122.7	124.7	133.3	133.7	135.0	135.8	135.6	134.8	138.0
36	Transportation equip	37	9.27	110.6	106.7	105.8	115.0	104.4	104.7	112.7	118.2	113.1	113.4
37	Motor vehicles & pts		4.50	140.7	130.1	126.7	150.6	130.2	129.3	145.8	156.3	143.9	142.2
38	Aerospace & misc. tr. eq		4.77	82.3	84.7	86.1	81.5	80.1	81.4	81.6	82.4	84.0	86.2
39	Instrument	38	2.11	148.0	140.9	142.0	149.6	148.7	150.3	150.3	154.0	153.8	157.4
40	Miscellaneous mfrs	39	1.51	143.4	137.3	139.5	142.1	143.8	142.2	143.7	146.8	145.0	148.8

[1] 1972 dollars.

NOTE.—Published groupings include some series and subtotals not shown separately. For summary description and historical data, see BULLETIN for June 1976, pp. 470–79. Availability of detailed descriptive and historical data will be announced in a forthcoming BULLETIN.

2.14 HOUSING AND CONSTRUCTION

Monthly figures at annual rates except as noted

Item	1974	1975	1976	1976 July	1976 Aug.	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.
	Private residential real estate activity (thousands of units; monthly figures, seasonally adjusted exceptions noted)									
NEW UNITS										
1 *Permits authorized*	*1,074*	*927*	*1,281*	*1,215*	*1,296*	*1,504*	*1,492*	*1,590*	*1,514*	*1,307*
2 1-family	644	669	895	870	874	926	998	1,072	1,053	970
3 2-or-more-family	431	278	386	345	422	578	494	518	461	337
4 *Started*	*1,338*	*1,160*	*1,540*	*1,413*	*1,530*	*1,768*	*1,715*	*1,706*	*1,884*	*1,375*
5 1-family	888	892	1,163	1,129	1,172	1,254	1,269	1,236	1,331	1,029
6 2-or-more-family	450	268	377	284	358	514	446	470	553	346
7 *Under construction, end of period*	*1,189*	*1,003*	*1,157*	*1,063*	*1,074*	*1,107*	*1,140*	*1,164*	*1,193*	....
8 1-family	516	531	662	615	622	641	662	674	693	....
9 2-or-more-family	673	472	495	448	452	466	478	490	500	....
10 *Completed*	*1,692*	*1,297*	*1,354*	*1,307*	*1,401*	*1,387*	*1,326*	*1,445*	*1,377*	....
11 1-family	931	866	1,021	1,038	1,094	1,017	989	1,114	1,039	....
12 2-or-more-family	760	430	333	269	307	370	337	331	338	....
13 Mobile homes shipped	329	213	250	224	252	255	277	251	252	273
Merchant builder activity in 1-family units:										
14 Number sold	501	544	635	606	640	741	735	703	748	....
15 Number for sale, end of period	407	383	....	411	406	415	419	431	435	....
Price (thous. of dollars)										
Median:										
16 Units sold	35.9	39.3	44.2	44.6	44.2	44.7	45.4	45.8	46.4	....
17 Units for sale	36.2	38.9	41.6	40.7	40.8	41.0	41.0	41.2	41.6	....
Average:										
18 Units sold	38.9	42.6	48.0	48.0	48.5	48.2	50.4	49.9	50.8	51.3
EXISTING UNITS (1-family)										
19 Number sold	2,272	2,452	2,998	2,900	3,070	3,330	3,290	3,320	3,560	3,190
Price of units sold (thous. of dollars):										
20 Median	32.0	35.3	38.1	38.9	39.4	38.7	38.5	38.8	39.0	39.6
21 Average	35.8	39.0	42.2	43.2	43.4	42.7	42.4	42.9	43.3	44.0
	Value of new construction [2] (millions of dollars; monthly figures, seasonally adjusted)									
CONSTRUCTION										
22 **Total put in place**	**138,526**	**132,043**	**144,458**	**141,055**	**142,031**	**146,281**	**146,805**	**150,448**	**150,381**	**135,698**
23 *Private*	*100,179*	*93,034*	*107,961*	*104,288*	*104,682*	*108,650*	*112,833*	*116,381*	*117,114*	*105,907*
24 Residential	50,378	46,476	59,419	57,176	55,427	58,701	63,428	66,385	68,194	61,958
25 Nonresidential, total	49,801	46,558	48,542	47,112	49,255	49,949	49,405	49,996	48,920	43,949
Buildings:										
26 Industrial	7,902	8,017	6,898	6,097	6,902	6,894	6,407	6,461	6,323	6,055
27 Commercial	15,945	12,804	12,569	12,574	12,984	12,786	12,560	12,522	12,552	12,325
28 Other	5,797	5,585	6,251	6,178	6,689	6,669	6,489	6,677	6,491	6,024
29 Public utilities and other	20,157	20,152	22,824	22,263	22,680	23,600	23,949	24,336	23,554	19,545
30 *Public*	*38,347*	*39,009*	*36,397*	*36,767*	*37,349*	*37,631*	*33,972*	*34,067*	*33,267*	*29,791*
31 Military	1,188	1,391	1,479	1,448	1,450	1,352	1,467	1,622	1,567	1,503
32 Highway	12,069	10,345	9,115	8,297	9,596	8,856	8,738	7,843	7,551	....
33 Conservation and development	2,741	3,227	3,658	3,573	3,618	4,281	2,949	4,077	3,842	....
34 Other	22,349	24,046	22,145	23,449	22,685	23,142	20,818	20,525	20,307	....

1 Not seasonally adjusted

2 Value of new construction data in recent periods may not be strictly comparable with data in prior periods due to changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE.—Census Bureau estimates for all series except (a) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau and (b) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from originating agency. Permit authorizations are for 14,000 jurisdictions reporting to the Census Bureau.

2.15 CONSUMER AND WHOLESALE PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	12 months to— 1976 Jan.	12 months to— 1977 Jan.	3 months (at annual rate) to— 1976 Mar.[r]	June[r]	Sept.[r]	Dec.[r]	1 month to— 1976 Sept.[r]	Oct.[r]	Nov.[r]	Dec.[r]	1977 Jan.	Index level Jan. 1977 (1967 = 100)[1]
						Consumer prices						
1 **All items**	**6.8**	**5.2**	**3.9**	**6.1**	**5.3**	**4.2**	**.3**	**.3**	**.3**	**.4**	**.8**	**175.3**
2 *Commodities*	*5.9*	*3.9*	*.2*	*6.0*	*3.9*	*3.4*	*.2*	*.3*	*.2*	*.4*	*.8*	*168.7*
3 Food	5.8	1.4	−5.4	6.2	1.6	0.0	.1	.2	−.3	.1	.9	183.4
4 Commodities less food	5.8	5.4	4.0	5.6	5.5	5.7	.3	.4	.4	.6	.7	160.6
5 Durable	7.0	6.6	7.2	6.5	5.0	6.0	.3	.3	.4	.7	.9	158.9
6 Nondurable	5.1	4.7	1.8	5.0	6.0	5.4	.4	.4	.4	.4	.5	161.9
7 *Services*	*8.4*	*7.2*	*10.6*	*6.5*	*7.5*	*5.1*	*.5*	*.4*	*.4*	*.4*	*.9*	*187.5*
8 Rent	5.0	5.5	6.1	5.4	5.4	5.3	.5	.4	.4	.5	.5	149.0
9 Services less rent	8.9	7.4	11.2	6.7	7.7	5.4	.5	.5	.4	.4	.9	194.4
Other groupings:												
10 All items less food[1]	7.0	6.3	5.3	7.0	7.4	5.3	.7	.5	.5	.3	.4	172.9
11 All items less shelter[1]	6.7	5.3	3.0	6.9	5.6	4.3	.4	.4	.4	.3	.5	173.1
12 Homeownership[1]	7.5	4.2	1.9	4.3	8.0	1.2	.5	.2	0.0	.1	.9	196.7
						Wholesale prices						
13 **All commodities**	**4.4**	**4.9**	**1.6**	**6.4**	**3.3**	**7.4**	**.7**	**.5**	**.6**	**.6**	**.5**	**188.0**
14 *Farm products, and processed foods and feeds*	*.4*	*.1*	*−9.5*	*12.7*	*−12.2*	*6.6*	*.3*	*−.6*	*.1*	*2.1*	*.3*	*184.8*
15 Farm products	7.3	.4	−12.2	16.5	−12.1	6.1	1.0	−.5	−.5	2.6	1.1	193.5
16 Processed foods and feeds	3.8	−.1	−7.7	10.3	−12.2	7.0	−.1	−.6	.5	1.8	−.2	179.3
17 *Industrial commodities*	*5.9*	*6.3*	*5.1*	*4.5*	*8.2*	*7.8*	*.8*	*.9*	*.7*	*.3*	*.5*	*188.4*
Materials, supplies, and components of which:												
18 Crude materials[2]	6.6	10.9	5.2	16.8	10.8	21.4	−.5	3.7	3.5	−2.2	−1.2	259.4
19 Intermediate materials[3]	5.0	6.2	5.8	3.5	8.1	7.5	.9	.8	.5	.5	.5	195.1
Finished goods, excluding foods:												
20 Consumer	6.4	5.2	3.1	3.0	8.2	5.2	.9	.5	.4	.3	1.0	167.2
21 Durable	5.2	4.2	4.0	2.8	5.1	3.6	.6	.5	.2	.1	.7	148.9
22 Nondurable	7.1	5.8	2.4	3.1	9.9	6.5	.9	.6	.7	.3	1.1	179.4
23 Producer	7.7	6.1	7.1	4.5	5.0	9.2	.6	1.1	.4	.7	.4	179.8
MEMO:												
24 Consumer foods	3.8	−1.2	−13.7	13.2	−13.8	8.6	0.0	−.5	−.3	2.8	−.1	181.5

1 Not seasonally adjusted.
2 Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3 Excludes intermediate materials for food manufacturing and manufactured animal feeds.
SOURCE.—Bureau of Labor Statistics.

2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. ~~Exceptions noted~~

	Account	1974	1975	1976	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3	1976 Q4
		Gross national product								
1	**Total**	**1,413.2**	**1,516.3**	**r1,691.4**	**1,548.7**	**1,588.2**	**1,636.2**	**1,675.2**	**1,708.9**	**1,744.3**
	By source:									
2	*Personal consumption expenditures*	*887.5*	*973.2*	*1,079.7*	*987.3*	*1,012.0*	*1,043.6*	*1,064.7*	*1,088.5*	*1,122.0*
3	Durable goods	121.6	131.7	156.5	136.0	141.8	151.4	155.0	157.6	162.0
4	Nondurable goods	376.2	409.1	440.4	414.6	421.6	429.1	434.8	441.8	456.0
5	Services	389.6	432.4	482.8	436.7	448.6	463.2	474.9	489.1	504.0
6	*Gross private domestic investment*	*215.0*	*183.7*	*239.6*	*197.7*	*201.4*	*229.6*	*239.2*	*247.0*	*242.8*
7	Fixed investment	204.3	198.3	227.7	198.6	205.7	214.7	223.2	231.9	241.0
8	*Nonresidential*	*149.2*	*147.1*	*160.0*	*146.1*	*148.7*	*153.4*	*157.9*	*163.0*	*165.6*
9	Structures	54.1	52.0	55.3	51.8	52.1	53.2	54.9	56.0	57.0
10	Producers' durable equipment	95.1	95.1	104.7	94.2	96.6	100.2	103.0	107.0	108.6
11	Residential structures	55.1	51.2	67.7	52.6	57.0	61.3	65.3	68.9	75.5
12	Nonfarm	52.7	49.0	65.1	50.2	54.2	58.6	62.9	66.3	72.7
13	Change in business inventories	10.7	−14.6	11.9	−2.0	−4.3	14.8	16.0	15.1	1.7
14	Nonfarm	12.2	−17.6	11.9	−4.2	−9.5	12.7	17.3	15.6	2.2
15	*Net exports of goods and services*	*7.5*	*20.5*	*6.4*	*21.4*	*21.0*	*8.4*	*9.3*	*4.7*	*3.3*
16	Exports	144.4	148.1	162.7	148.2	153.7	154.1	160.3	167.7	168.6
17	Imports	136.9	127.6	156.3	126.8	132.7	145.7	151.0	163.0	165.3
18	*Govt. purchases of goods and services*	*303.3*	*339.0*	*365.6*	*343.2*	*353.8*	*354.7*	*362.0*	*369.6*	*376.2*
19	Federal	111.6	124.4	133.4	124.6	130.4	129.2	131.2	134.5	138.9
20	State and local	191.6	214.5	232.2	218.6	223.4	225.5	230.9	235.0	237.4
	By major type of product:									
21	Final sales, total	1,402.5	1,531.0	1,679.5	1,550.6	1,592.5	1,621.4	1,659.2	1,694.7	1,742.6
22	*Goods*	*639.7*	*681.7*	*760.2*	*703.5*	*719.7*	*742.3*	*758.4*	*766.1*	*774.3*
23	Durable goods	247.2	254.4	300.5	265.0	270.0	282.7	301.2	308.2	309.8
24	Nondurable	392.4	427.3	459.8	438.4	449.7	459.6	457.1	457.9	464.5
25	Services	626.6	692.5	771.8	700.2	719.5	742.6	759.6	781.5	803.5
26	Structures	146.9	142.1	159.3	145.0	149.1	151.3	157.3	162.2	166.5
27	Change in business inventories	10.7	−14.6	11.9	−2.0	−4.3	14.8	16.0	15.1	1.7
28	Durable goods	7.1	−12.1	2.7	−7.0	−10.6	−3.6	5.4	6.8	2.0
29	Nondurable goods	3.6	−2.6	9.2	5.0	6.3	18.5	10.6	8.3	−.3
	MEMO:									
30	**Total GNP in 1972 dollars**	**1,214.0**	**1,191.7**	**1,264.6**	**1,209.3**	**1,219.2**	**1,246.3**	**1,260.0**	**1,272.2**	**1,279.9**
		National income								
31	**Total**	**1,135.7**	**1,207.6**	**r1,348.4**	**1,233.4**	**1,264.6**	**1,304.7**	**1,337.4**	**1,362.5**	....
32	Compensation of employees	875.8	928.8	1,028.4	935.2	963.1	994.4	1,017.2	1,037.5	1,064.5
33	*Wages and salaries*	*764.5*	*806.7*	*890.4*	*811.7*	*836.4*	*861.5*	*881.1*	*897.8*	*921.0*
34	Government and Government enterprises	160.4	175.8	190.7	177.3	182.2	185.4	188.7	191.7	197.0
35	Other	604.1	630.8	699.7	634.4	654.1	676.1	692.4	706.1	r723.9
36	*Supplement to wages and salaries*	*111.3*	*122.1*	*138.0*	*123.5*	*126.7*	*132.9*	*136.2*	*139.6*	*143.5*
37	Employer contributions for social insurance	55.8	59.7	67.9	60.2	61.6	65.9	67.1	68.6	70.2
38	Other labor income	55.5	62.5	70.1	63.3	65.2	67.1	69.0	71.1	73.3
39	*Proprietors' income*[1]	*86.9*	*90.2*	*96.7*	*95.5*	*97.2*	*93.2*	*100.3*	*96.1*	*97.1*
40	Business and professional[1]	61.1	65.3	73.8	66.3	69.0	71.4	72.8	74.4	76.8
41	Farm[1]	25.8	24.9	22.8	29.2	28.3	21.9	27.5	21.7	20.3
42	Rental income of persons[2]	21.0	22.4	23.5	22.1	22.9	23.3	23.1	23.4	24.3
43	Corporate profits[1]	84.8	91.6	r117.7	105.3	105.6	115.1	116.4	122.0	....
44	Profits before tax[3]	127.6	114.5	r147.8	126.9	131.3	141.1	146.2	150.2	....
45	Inventory valuation adjustment	−39.8	−11.4	−14.6	−9.0	−12.3	−11.5	−14.4	−12.6	−20.0
46	Capital consumption adjustment	−3.0	−11.5	−15.5	−12.6	−13.5	−14.5	−15.4	−15.7	−16.4
47	Net interest	67.1	74.6	r82.0	74.9	75.8	78.6	80.3	83.5	r85.6

1 With inventory valuation and capital consumption adjustments.
2 With capital consumption adjustments.
3 For after-tax profits, dividends, etc., see Table 1.50.

SOURCE.—*Survey of Current Business* (U.S. Dept. of Commerce).

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted

Account	1974	1975	1976	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3	1976 Q4
				Personal income and saving					
1 **Total personal income**	1,153.3	1,249.7	r1,375.3	1,265.5	1,299.7	1,331.3	1,362.0	1,386.0	r1,421.7
2 *Wage and salary disbursements*	*765.0*	*806.7*	*890.4*	*811.7*	*836.4*	*961.5*	*881.1*	*897.8*	*921.0*
3 Commodity-producing industries	273.9	275.3	304.8	272.2	285.8	295.3	302.9	307.0	314.0
4 Manufacturing	211.4	211.7	237.0	212.5	220.3	229.6	235.6	238.9	r243.2
5 Distributive industries	184.4	195.6	214.9	196.8	202.3	208.3	212.8	216.5	r221.9
6 Service industries	145.9	159.9	180.0	161.3	166.1	172.4	176.7	182.7	r188.1
7 Government and government enterprises	160.9	175.8	190.7	177.3	182.2	185.4	188.7	191.7	197.0
8 Other labor income	55.5	62.5	70.1	63.3	65.2	67.1	69.0	71.1	73.3
9 *Proprietors' income*[1]	*86.9*	*90.2*	*96.7*	*95.5*	*97.2*	*93.2*	*100.3*	*96.1*	*97.1*
10 Business and professional[1]	61.1	65.3	73.8	66.3	69.0	71.4	72.8	74.4	76.8
11 Farm[1]	25.8	24.9	22.8	29.2	28.3	21.9	27.5	21.7	20.3
12 Rental income of persons[2]	21.0	22.4	23.5	22.4	22.9	23.3	23.1	23.4	24.3
13 Dividends	30.8	32.1	35.1	32.6	32.2	33.1	34.4	35.4	37.7
14 Personal interest income	101.4	110.7	r123.0	111.0	114.4	118.0	120.7	125.0	r128.4
15 Transfer payments	140.3	175.2	191.3	179.1	182.5	188.6	187.6	192.4	196.6
16 Old-age survivors, disability, and health insurance benefits	70.1	81.4	93.0	84.7	86.3	88.1	89.5	95.8	r98.5
17 LESS: Personal contributions for social insurance	47.6	50.0	54.9	50.1	51.0	53.4	54.3	55.2	56.6
18 EQUALS: Personal income	1,153.3	1,249.7	r1,375.3	1,265.5	1,299.7	1,331.3	1,362.0	1,386.0	r1,421.7
19 LESS: Personal tax and nontax payments	170.4	168.8	193.6	174.0	197.8	183.8	189.5	195.8	205.3
20 EQUALS: Disposable personal income	982.9	1,080.9	r1,181.7	1,091.5	1,119.9	1,147.6	1,172.5	1,190.2	r1,216.5
21 LESS: Personal outlays	910.7	996.9	r1,105.2	1,011.1	1,036.2	1,068.0	1,089.6	1,114.3	1,148.6
22 EQUALS: Personal saving	72.2	84.0	r76.5	80.5	83.7	79.5	82.9	75.8	r67.8
MEMO:									
Per capita, 1972 dollars:									
23 Gross national product	3,968.0	4,007.0	r4,140.0	4,009.0	4,049.0	4,103.0	4,143.0	4,142.0	r4,168.0
24 Personal consumption expenditures	887.5	973.2	r1,079.7	987.3	1,012.0	1,043.6	1,064.7	1,088.5	r1,122.0
25 Disposable personal income	840.8	855.5	r890.5	857.1	867.5	880.4	890.5	892.0	r899.6
26 Saving rate (per cent)	7.3	7.8	6.5	7.4	7.5	6.9	7.1	6.4	r5.6
				Gross saving					
27 **Gross private saving**	211.6	255.6	r274.6	262.7	269.4	273.8	279.1	r278.9	....
28 Personal saving	72.2	84.0	r76.5	80.5	83.7	79.5	82.9	75.8	r67.8
29 Undistributed corporate profits[1]	1.7	10.3	18.8	17.9	16.2	20.6	18.5	21.5	....
30 Corporate inventory valuation adjustment	−39.8	−11.4	−14.6	−9.0	−12.3	−11.5	−14.4	−12.6	−20.0
Capital consumption allowances:									
31 Corporate	84.6	100.9	112.8	103.1	106.4	108.8	111.6	113.9	116.9
32 Noncorporate	53.1	60.4	67.0	61.3	63.2	64.8	66.1	67.7	69.3
33 Wage accruals less disbursements	....	....	....	....	....	....	....	....	....
34 *Government surplus, or deficit (−), national income and product accounts*	*−4.2*	*−64.4*	*r−44.7*	*−58.1*	*−61.5*	*−51.6*	*−44.9*	*−44.7*	....
35 Federal	−11.5	−71.2	r−58.7	−66.0	−69.4	−63.8	−54.1	−57.4	....
36 State and local	7.3	6.9	r14.0	7.9	7.9	12.2	9.2	12.7	....
37 Capital grants received by the United States, net	−2.0	....	....	....	....	....	....	....	....
38 *Investment*	*211.9*	*195.6*	*r237.5*	*209.8*	*214.0*	*229.4*	*240.0*	*242.9*	*r237.6*
39 Gross private domestic	215.0	183.7	r239.6	196.7	201.4	229.6	239.2	247.0	r242.8
40 Net foreign	−3.0	11.9	r2.2	13.1	12.6	−.2	.8	−4.1	r5.1
41 Statistical discrepancy	6.8	4.4	7.6	5.1	6.1	7.2	5.8	8.7	....

1 With inventory valuation and capital consumption adjustments.
2 With capital consumption adjustment.

SOURCE.—*Survey of Current Business* (U.S. Dept. of Commerce).

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

	Item credits or debits	1973	1974	1975	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3
1	Merchandise exports	71,410	98,310	107,088	26,562	27,657	26,836	28,428	29,581
2	Merchandise imports	70,499	103,679	98,058	24,483	25,437	28,510	29,771	32,614
3	Merchandise trade balance [2]	911	−5,369	9,030	2,079	2,220	−1,674	−1,343	−3,033
4	Military transactions, net	−2,287	−2,083	−883	−115	12	−5	−146	366
5	Investment income, net	5,178	10,227	6,007	1,682	1,670	2,279	2,460	2,712
6	Other service transactions, net	102	812	2,163	619	455	458	765	824
7	**Balance on goods and services [3]**	**3,905**	**3,586**	**16,316**	**4,265**	**4,357**	**1,058**	**1,736**	**869**
8	*Unilateral transfers*	*−3,883*	*−7,185*	*−4,620*	*−1,044*	*−1,251*	*−1,118*	*−920*	*−1,925*
9	Remittances, pensions, and other transfers	−1,945	−1,710	−1,727	−429	−433	−483	−452	−464
10	U.S. Govt. grants (excluding military)	−1,938	−5,475	−2,893	−615	−818	−635	−468	−1,461
11	**Balance on current account**	**22**	**−3,598**	**11,697**	**3,221**	**3,106**	**−60**	**816**	**−1,056**
12	*Not seasonally adjusted*	....	....	....	*513*	*4,305*	*1,479*	*771*	*−4,033*
13	U.S. Govt. capital transactions, other than official reserve assets, net (outflow, −)	−1,492	1,089	−1,731	−401	−453	798	−212	301
14	*Change in U.S. official reserve assets (increase, −)*	*209*	*−1,434*	*−607*	*−342*	*89*	*−773*	*−1,578*	*−407*
15	Gold	....	....	....	....	....	....	....	....
16	SDR's	9	−172	−66	−25	−21	−45	14	−18
17	Reserve position in IMF	−33	−1,265	−466	−95	−57	−237	−798	−716
18	Foreign currencies	233	3	−75	−222	167	−491	−794	327
19	**Change in U.S. private assets abroad (increase, −)**	**−13,998**	**−32,323**	**−27,523**	**−3,297**	**−10,375**	**−8,550**	**−7,288**	**−7,040**
20	*Bank-reported claims*	*−5,980*	*−19,494*	*−13,487*	*−617*	*−5,348*	*−3,582*	*−4,767*	*−3,339*
21	Long-term	−933	−1,183	−2,373	−608	−943	−250	−385	−989
22	Short-term	−5,047	−18,311	−11,114	−9	−4,405	−3,332	−4,382	−2,350
23	*Nonbank-reported claims*	*−2,378*	*−3,221*	*−1,522*	*−972*	*−972*	*−751*	*−962*	*350*
24	Long-term	−396	−474	−441	−139	−379	−187	146	21
25	Short-term	−1,982	−2,747	−1,081	−833	−593	−564	−1,108	329
26	U.S. purchase of foreign securities, net	−671	−1,854	−6,206	−938	−2,361	−2,460	−1,357	−2,806
27	U.S. direct investments abroad, net	−4,968	−7,753	−6,307	−770	−1,694	−1,757	−202	−1,245
28	*Change in foreign official assets in the United States (increase, +)*	*5,145*	*10,257*	*5,166*	*−1,977*	*2,272*	*2,460*	*3,308*	*1,258*
29	U.S. Treasury securities	114	3,282	4,338	−2,847	1,069	1,998	2,166	1,261
30	Other U.S. Govt. obligations	582	902	891	25	307	68	316	66
31	Other U.S. liabilities reported by U.S. banks	4,126	5,818	−2,158	320	134	−275	135	−595
32	Other foreign official assets	323	254	2,095	525	762	669	691	526
33	**Change in foreign private assets in the United States (increase, +)**	**12,220**	**21,452**	**8,427**	**4,313**	**3,103**	**1,454**	**3,225**	**5,458**
34	*U.S. bank-reported liabilities*	*4,702*	*16,017*	*647*	*1,639*	*691*	*675*	*3,518*	*1,719*
35	Long-term	227	9	−300	−114	146	−91	−25	67
36	Short-term	4,475	16,008	947	1,753	545	766	3,543	1,652
37	*U.S. nonbank-reported liabilities*	*1,035*	*1,615*	*171*	*−141*	*−68*	*24*	*−248*	*−141*
38	Long-term	298	−212	345	−99	10	−332	−188	−215
39	Short-term	737	1,827	−174	−42	−78	356	−60	74
40	Foreign private purchases of U.S. Treasury securities, net	−214	697	2,667	2,125	213	453	−598	3,020
41	Foreign purchases of other U.S. securities, net	4,041	378	2,505	738	1,038	1,030	131	77
42	Foreign direct investments in the United States, net	2,656	2,745	2,437	−48	1,229	−728	422	784
43	Allocations of SDR's	....	....	....	....	....	....	....	....
44	*Discrepancy*	*−2,107*	*4,557*	*4,570*	*−1,517*	*2,258*	*4,671*	*1,729*	*1,485*
45	Owing to seasonal adjustments	....	....	....	−2,561	1,275	1,349	−76	−2,829
46	Statistical discrepancy in recorded data before seasonal adjustment	−2,107	4,557	4,570	1,044	983	3,322	1,805	4,314
	MEMO:								
	Changes in official assets:								
47	*U.S. official reserve assets (increase, −)*	209	−1,434	−607	−342	89	−773	−1,578	−407
48	Foreign official assets in the U.S. (increase, +)	5,145	10,257	5,166	−1,977	2,272	2,460	3,308	1,258
49	Transfers under military grant programs (excluded from lines 1, 4, and 10 above)	2,809	1,817	2,232	56	177	50	99	156

1 Seasonal factors are no longer calculated for capital transactions—lines 14 through 49.

2 Adjusted to a balance of payments basis; among other adjustments, excludes military transactions and includes imports into the Virgin Islands.

3 Differs from the definition of "net exports of goods and services" in the national income and product (GNP) account. The GNP definition excludes special military sales from exports and U.S. Govt. interest payments from imports.

NOTE.—Data are from Bureau of Economic Analysis, *Survey of Current Business* (U.S. Dept. of Commerce).

3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are seasonally adjusted

Item	1974	1975	1976	1976 July[r]	Aug.[r]	Sept.[r]	Oct.[r]	Nov.[r]	Dec.[r]	1977 Jan.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments	97,908	107,130	114,807	9,956	9,737	9,788	9,699	9,589	10,410	9,599
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses	100,252	96,115	120,677	10,717	10,477	10,651	10,555	10,623	11,020	11,269
3 **Trade balance**	**−2,344**	**+11,014**	**−5,870**	**−761**	**−740**	**863**	**−857**	**1,034**	**−610**	**−1,670**

NOTE.—Bureau of Census data reported on a free-alongside-ship (f.a.s.) value basis. Before 1974 imports were reported on a customs import value basis. For calendar year 1974 the f.a.s. import value was $100.3 billion, about 0.7 per cent less than the corresponding customs import value. The international-accounts-basis data shown in Table 3.10 adjust the Census basis data for reasons of coverage and timing. On the *export side*, the largest adjustments are: (a) the addition of exports to Canada not covered in Census statistics, and (b) the exclusion of military exports (which are combined with other military transactions and are reported separately in the "service account"). On the *import* side, the largest single adjustment is the addition of imports into the Virgin Islands (largely oil for a refinery on St. Croix), which are not included in Census statistics.

SOURCE. U.S. Dept. of Commerce, Bureau of the Census, Summary of U.S. Export and Import Merchandise Trade (FT 900).

3.12 U.S. RESERVE ASSETS

Millions of dollars; end of period

Type of asset	1973	1974	1975	1976 Aug.	Sept.	Oct.	Nov.	Dec.	1977 Jan.	Feb.
1 **Total**	**[3] 14,378**	**15,883**	**16,226**	**18,586**	**18,945**	**19,013**	**19,416**	**18,747**	**19,087**	**[4] 19,122**
2 Gold stock, including Exchange Stabilization Fund[1]	[3] 11,652	11,652	11,599	11,598	11,598	11,598	11,598	11,598	11,658	11,658
3 Special Drawing Rights[2]	[3] 2,166	2,374	2,335	2,325	2,357	2,352	2,365	2,395	2,375	[4] 2,383
4 Reserve position in International Monetary Fund	[3] 552	1,852	2,212	3,818	3,952	3,997	4,307	4,434	4,682	[4] 4,819
5 Convertible foreign currencies	8	5	80	845	1,038	1,066	1,146	320	372	262

1 Gold held under earmark at F.R. Banks for foreign and international accounts is not included in the gold stock of the United States; see 3.24.

2 Includes allocations by the International Monetary Fund of SDR's as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; and $710 million on Jan. 1, 1972; plus net transactions in SDR's.

3 Change in par value of U.S. dollar on Oct. 18, 1973 increased total reserve assets by $1,436 million, gold stock by $1,165 million, SDR's by $217 million, and reserve position in IMF by $54 million.

4 Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of 16 member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974. At valuation used prior to July 1974 (SDR1 = $1.20635) total U.S. reserve assets at end of February amounted to $19,325; SDR holdings, $2,487; and reserve position in IMF, $4,918.

3.13 SELECTED U.S. LIABILITIES TO FOREIGNERS

Millions of dollars; end of period

Holder, and type of liability	1973	1974 Dec.[9]	1974 Dec.[9]	1975	1976 Aug.[r]	1976 Sept.[r]	1976 Oct.[r]	1976 Nov.	1976 Dec.[p]	1977 Jan.[p]
1 **Total**	**92,490**	**119,240**	**119,164**	**126,552**	**138,769**	**140,834**	**143,728**	**144,643**	**151,319**	**147,653**
2 **Foreign countries**	**90,487**	**115,918**	**115,842**	**120,929**	**131,713**	**133,072**	**136,093**	**136,411**	**142,836**	**139,709**
3 *Official institutions*[1]	*66,861*	*76,801*	*76,823*	*80,695*	*86,725*	*86,085*	*86,827*	*87,745*	*91,833*	*92,976*
4 Short-term, reported by banks in the United States.[2]	43,923	53,057	53,079	49,513	51,246	49,654	49,017	49,273	53,461	54,465
U.S. Treasury bonds and notes:										
5 Marketable[3]	5,701	5,059	5,059	6,671	9,835	10,800	11,027	11,367	11,788	12,017
6 Nonmarketable[4]	15,564	16,339	16,339	19,976	19,801	19,803	20,876	21,131	20,648	20,622
7 Other readily marketable liabilities[5]	1,673	2,346	2,346	4,535	5,843	5,828	5,907	5,974	5,936	5,872
Commercial banks abroad										
8 Short-term reported by banks in the United States[2,6]	17,694	30,314	30,106	29,516	32,853	34,641	36,940	35,384	37,436	33,252
9 *Other foreigners*	*5,932*	*8,803*	*8,913*	*10,718*	*12,135*	*12,346*	*12,326*	*13,282*	*13,567*	*13,481*
10 Short-term, reported by banks in the United States[2]	5,502	8,305	8,415	10,017	11,224	11,475	11,399	12,312	12,591	12,479
11 Marketable U.S. Treasury bonds and notes[3,7]	430	498	498	701	911	871	927	970	976	1,002
12 **Nonmonetary international and regional organization**[8]	**2,003**	**3,322**	**3,322**	**5,623**	**7,056**	**7,762**	**7,635**	**8,232**	**8,483**	**7,944**
13 Short-term, reported by banks in the United States[2]	1,955	3,171	3,171	5,292	5,649	5,966	5,102	5,506	5,450	4,650
14 Marketable U.S. Treasury bonds and notes[3]	48	151	151	331	1,407	1,796	2,533	2,726	3,033	3,294

[1] Includes Bank for International Settlements.
[2] Includes Treasury bills as shown in Table 3.15.
[3] Derived by applying reported transactions to benchmark data.
[4] Excludes notes issued to foreign official nonreserve agencies.
[5] Includes long-term liabilities reported by banks in the United States and debt securities of U.S. Federally sponsored agencies and U.S. corporations.
[6] Includes short-term liabilities payable in foreign currencies to commercial banks abroad and to other foreigners.
[7] Includes marketable U.S. Treasury bonds and notes held by commercial banks abroad and other foreigners.
[8] Principally the International Bank for Reconstruction and Development and the Inter-American and Asian Development Banks.
[9] Data in the two columns shown for this date differ because of changes in reporting coverage. Figures in the first column are comparable in coverage with those for the preceding date; figures in the second column are comparable with those shown for the following date.

NOTE.—Based on Treasury Dept. data and on data reported to the Treasury Dept. by banks (including Federal Reserve banks) and brokers in the United States. Data exclude the holdings of dollars of the International Monetary Fund derived from payments of the U.S. subscription, and from the exchange transactions and other operations of the IMF. Data also exclude U.S. Treasury letters of credit and nonnegotiable, noninterest-bearing special U.S. notes held by nonmonetary international and regional organizations.

3.14 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars; end of period

Area	1973	1974 Dec. 3	1974 Dec. 3	1976	1976 Aug.[r]	1976 Sept.[r]	1976 Oct.[r]	1976 Nov.	1976 Dec.[p]	1977 Jan.[p]
1 **Total**	**66,861**	**76,801**	**76,823**	**80,695**	**86,725**	**86,085**	**86,827**	**87,745**	**91,833**	**92,976**
2 Western Europe[1]	45,764	44,328	44,328	45,685	41,507	41,565	41,933	44,075	45,844	45,930
3 Canada	3,853	3,662	3,662	3,132	3,212	3,417	3,389	2,406	3,406	3,197
4 Latin American republics	2,544	4,419	4,419	4,450	4,374	4,287	4,086	4,087	4,847	4,547
5 Asia	10,887	18,604	18,626	22,550	32,634	32,434	33,438	33,906	34,105	35,541
6 Africa	788	3,161	3,161	2,984	3,098	2,759	2,415	1,925	1,843	1,707
7 Other countries[2]	3,025	2,627	2,627	1,894	1,900	1,623	1,566	1,346	1,788	2,054

[1] Includes Bank for International Settlements.
[2] Includes countries in Oceania and Eastern Europe, and Western European dependencies in Latin America.
[3] See Note 9 to Table 3.13.

NOTE.—Data represent breakdown by area of line 3, Table 3.13.

3.15 SHORT-TERM LIABILITIES TO FOREIGNERS Reported by Banks in the United States
By Holder and by Type of Liability

Millions of dollars; end of period

	Holder, and type of liability	1973	1974 Dec.[8]	1974 Dec.[8]	1975	1976 Aug.r	1976 Sept.r	1976 Oct.r	1976 Nov.r	1976 Dec.r	1977 Jan.p
1	**All foreigners, excluding the International Monetary Fund**	**69,074**	**94,847**	**94,771**	**r94,338**	**100,972**	**101,736**	**102,458**	**102,474**	**108,938**	**104,846**
2	*Payable in dollars*	*68,477*	*94,081*	*94,004*	*r93,780*	*100,303*	*101,034*	*101,692*	*101,693*	*108,215*	*104,120*
	Deposits:										
3	Demand	11,310	14,068	14,051	13,564	14,193	14,793	14,658	15,811	16,803	15,331
4	Time[1]	6,882	10,106	9,932	10,348	10,180	10,644	10,546	10,757	11,551	11,450
5	U.S. Treasury bills and certificates[2]	31,886	35,662	35,662	37,414	40,964	40,119	38,934	38,643	40,744	41,276
6	Other short-term liabilities[3]	18,399	34,246	34,359	32,466	34,966	35,478	37,552	36,484	39,118	36,063
7	*Payable in foreign currencies*	*597*	*766*	*766*	*558*	*669*	*702*	*766*	*781*	*724*	*726*
8	**Nonmonetary international and regional organizations[4]**	**1,955**	**3,171**	**3,171**	**5,293**	**5,649**	**5,966**	**5,102**	**5,506**	**5,450**	**4,650**
9	*Payable in dollars*	*1,955*	*3,171*	*3,171*	*5,284*	*5,641*	*5,692*	*5,098*	*5,502*	*5,445*	*4,646*
	Deposits:										
10	Demand	101	139	139	139	379	331	256	287	290	166
11	Time[1]	83	111	111	148	148	151	164	199	208	230
12	U.S. Treasury bills and certificates	296	497	497	2,554	3,475	4,031	3,196	3,604	2,701	2,890
13	Other short-term liabilities[5]	1,474	2,424	2,424	2,443	1,639	1,449	1,482	1,412	2,247	1,360
14	*Payable in foreign currencies*	....	....	....	*8*	*8*	*4*	*4*	*4*	*5*	*4*
15	**Official institutions, banks, and other foreigners**	**67,119**	**91,676**	**91,600**	**r89,046**	**95,323**	**95,770**	**97,356**	**96,969**	**103,488**	**100,196**
16	*Payable in dollars*	*66,522*	*90,910*	*90,834*	*r88,497*	*94,662*	*95,073*	*96,594*	*96,193*	*102,769*	*99,474*
	Deposits:										
17	Demand	11,209	13,928	13,912	13,426	13,814	14,462	14,402	15,520	16,513	15,165
18	Time[1]	6,799	9,995	9,821	10,200	10,032	10,493	10,383	10,558	11,343	11,220
19	U.S. Treasury bills and certificates[2]	31,590	35,165	35,165	34,860	37,489	36,086	35,736	35,039	38,042	38,386
20	Other short-term liabilities[3]	16,925	31,822	31,935	30,023	33,327	34,029	36,070	35,072	36,871	34,703
21	*Payable in foreign currencies*	*597*	*766*	*766*	*549*	*661*	*697*	*762*	*776*	*719*	*722*
22	**Official institutions[6]**	**43,923**	**53,057**	**53,079**	**49,513**	**51,246**	**49,654**	**49,017**	**49,273**	**53,461**	**54,465**
23	*Payable in dollars*	*43,795*	*52,930*	*52,952*	*49,513*	*51,246*	*49,654*	*49,017*	*49,273*	*53,461*	*54,465*
	Deposits:										
24	Demand	2,125	2,951	2,951	2,644	2,380	2,544	2,706	2,685	3,394	2,931
25	Time[1]	3,911	4,257	4,167	3,423	2,207	2,144	2,127	2,149	2,335	2,456
26	U.S. Treasury bills and certificates[2]	31,511	34,656	34,656	34,182	36,974	35,651	35,241	34,656	37,675	38,031
27	Other short-term liabilities[5]	6,248	11,066	11,178	9,264	9,685	9,314	8,943	9,783	10,057	11,047
28	*Payable in foreign currencies*	*127*	*127*	*127*	....	....	....	....	....	....	....
29	**Banks and other foreigners**	**23,196**	**38,619**	**38,520**	**r39,533**	**44,077**	**46,115**	**48,339**	**47,696**	**50,027**	**45,888**
30	*Payable in dollars*	*22,727*	*37,980*	*37,881*	*r38,984*	*44,738*	*45,418*	*47,577*	*48,472*	*49,308*	*45,166*
31	Banks[7]	17,224	29,676	29,467	28,966	32,192	33,944	36,178	34,608	36,717	32,687
	Deposits:										
32	Demand	6,941	8,248	8,231	7,534	7,929	8,233	8,361	8,897	9,104	8,492
33	Time[1]	529	1,942	1,910	1,942	2,206	2,578	2,291	1,949	2,484	2,086
34	U.S. Treasury bills and certificates	11	232	232	335	162	176	223	174	169	172
35	Other short-term liabilities[3]	9,743	19,254	19,094	19,155	21,895	22,956	25,303	23,589	24,960	21,937
36	Other foreigners	5,502	8,304	8,414	r10,017	11,223	11,475	11,399	12,312	12,591	12,479
	Deposits:										
37	Demand	2,143	2,729	2,730	3,248	3,505	3,686	3,335	3,943	4,015	3,742
38	Time[1]	2,359	3,796	3,744	r4,823	5,618	5,771	5,965	6,461	6,524	6,678
39	U.S. Treasury bills and certificates	68	277	277	342	353	259	274	209	198	183
40	Other short-term liabilities[5]	933	1,502	1,664	1,605	1,747	1,759	1,824	1,700	1,854	1,876
41	*Payable in foreign currencies*	*469*	*639*	*639*	*549*	*661*	*697*	*762*	*776*	*719*	*722*

[1] Excludes negotiable time certificates of deposit, which are included in "Other short-term liabilities."

[2] Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.

[3] Includes liabilities of U.S. banks to their foreign branches, liabilities of U.S. agencies and branches of foreign banks to their head offices and foreign branches of their head offices, bankers acceptances, commercial paper, and negotiable time certificates of deposit.

[4] Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks.

[5] Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.

[6] Foreign central banks and foreign central governments and their agencies, and Bank for International Settlements.

[7] Excludes central banks, which are included in "Official institutions."

[8] Data in the two columns shown for this date differ because of changes in reporting coverage. Figures in the first column are comparable with those for the preceding date; figures in the second column are comparable with those shown for the following date.

NOTE.—"Short-term obligations" are those payable on demand, or having an original maturity of 1 year or less.

3.16 SHORT-TERM LIABILITIES TO FOREIGNERS Reported by Banks in the United States
By Country

Millions of dollars; end of period

	Area and country	1973	1974		1975[r]	1976					1977
			Dec.[7]			Aug.[r]	Sept.[r]	Oct.[r]	Nov.[r]	Dec.[r]	Jan.[p]
1	**Total**	**69,074**	**94,847**	**94,771**	**[r]94,338**	**100,972**	**101,736**	**102,458**	**102,475**	**108,938**	**104,846**
2	**Foreign countries**	**67,119**	**91,676**	**91,600**	**89,046**	**95,323**	**95,770**	**97,356**	**96,969**	**103,488**	**100,196**
3	*Europe*	*40,742*	*48,667*	*48,813*	*43,988*	*39,002*	*40,177*	*39,967*	*42,480*	*46,915*	*43,597*
4	Austria	161	607	607	754	412	335	334	332	348	373
5	Belgium-Luxembourg	1,483	2,506	2,506	2,898	1,976	1,946	1,879	2,085	2,268	2,376
6	Denmark	659	369	369	332	439	317	372	416	363	419
7	Finland	165	266	266	391	435	415	407	378	419	389
8	France	3,483	4,287	4,287	7,733	4,222	4,363	4,409	4,642	4,875	4,701
9	Germany	13,227	9,420	9,429	4,357	4,738	5,964	6,532	5,418	5,965	5,303
10	Greece	389	248	248	284	350	336	405	378	403	421
11	Italy	1,404	2,617	2,577	1,072	2,641	1,574	1,583	2,884	3,206	2,858
12	Netherlands	2,886	3,234	3,234	3,411	2,189	2,566	2,534	2,694	3,007	2,829
13	Norway	965	1,040	1,040	996	684	789	690	740	785	566
14	Portugal	534	310	310	195	257	193	177	206	239	172
15	Spain	305	382	382	426	419	540	506	478	565	494
16	Sweden	1,885	1,138	1,138	2,786	2,227	1,979	1,295	1,420	1,693	1,613
17	Switzerland	3,377	9,986	10,139	8,514	9,250	9,016	8,331	8,846	9,453	9,570
18	Turkey	98	152	152	118	100	65	74	88	166	85
19	United Kingdom	6,148	7,559	7,584	6,886	6,143	7,296	7,953	8,401	10,001	8,831
20	Yugoslavia	86	183	183	126	142	128	131	147	188	113
21	Other Western Europe[1]	3,352	4,073	4,073	2,970	2,130	2,103	2,089	2,639	2,661	2,263
22	U.S.S.R.	22	82	82	40	34	70	80	84	51	47
23	Other Eastern Europe	110	206	206	200	215	182	184	203	255	172
24	*Canada*	*3,627*	*3,517*	*3,520*	*3,076*	*3,805*	*4,796*	*4,033*	*3,944*	*4,784*	*4,519*
25	*Latin America*	*7,664*	*12,038*	*11,754*	*[r]14,942*	*17,600*	*17,490*	*19,065*	*17,684*	*19,009*	*17,745*
26	Argentina	924	886	886	1,147	1,510	1,437	1,374	1,293	1,538	1,648
27	Bahamas	852	1,448	1,054	1,827	3,006	2,628	4,817	2,654	2,789	1,974
28	Brazil	860	1,034	1,034	1,227	1,200	1,132	1,323	1,168	1,432	1,292
29	Chile	158	276	276	317	298	325	298	315	335	325
30	Colombia	247	305	305	417	772	767	804	922	1,017	1,110
31	Cuba	7	7	7	6	7	6	6	6	6	6
32	Mexico	1,296	1,770	1,770	[r]2,066	2,287	2,348	2,475	2,860	2,848	2,710
33	Panama	282	488	510	1,099	1,387	912	866	1,188	1,140	909
34	Peru	135	272	272	244	239	236	247	243	256	244
35	Uruguay	120	147	165	172	226	244	233	238	245	250
36	Venezuela	1,468	3,413	3,413	3,289	3,092	3,208	2,644	3,009	3,060	2,966
37	Other Latin American republics	884	1,316	1,316	1,494	1,703	1,750	1,676	1,740	2,062	2,033
38	Netherlands Antilles[2]	71	158	158	129	149	147	160	157	140	151
39	Other Latin America	359	519	589	1,507	1,723	2,348	2,142	1,890	2,141	2,126
40	*Asia*	*10,839*	*21,073*	*21,130*	*21,539*	*29,360*	*28,406*	*29,745*	*28,982*	*28,460*	*29,788*
41	China, People's Republic of (Mainland)	38	50	50	123	45	45	48	59	47	307
42	China, Republic of (Taiwan)	757	818	818	1,025	1,132	1,122	1,182	1,092	985	797
43	Hong Kong	372	530	530	623	842	874	887	859	892	941
44	India	85	261	261	126	1,047	985	1,048	910	648	510
45	Indonesia	133	1,221	1,221	369	1,002	995	1,154	314	340	695
46	Israel	327	386	389	386	324	300	310	325	385	430
47	Japan	6,967	10,897	10,931	10,218	14,194	14,424	14,663	14,736	14,380	14,480
48	Korea	195	384	384	390	369	350	366	324	437	448
49	Philippines	515	747	747	698	653	622	582	606	627	603
50	Thailand	247	333	333	252	248	215	223	244	275	301
51	Middle East oil-exporting countries[3]	....	4,633	4,623	6,461	8,127	7,198	7,741	8,124	8,073	9,029
52	Other[4]	1,202	813	844	867	1,376	1,276	1,539	1,388	1,372	1,245
53	*Africa*	*1,056*	*3,551*	*3,551*	*3,373*	*3,469*	*3,076*	*2,782*	*2,281*	*2,300*	*2,207*
54	Egypt	35	103	103	343	200	186	213	171	333	209
55	Morocco	11	38	38	68	107	80	85	72	88	97
56	South Africa	114	130	130	169	164	165	183	132	143	211
57	Zaire	87	84	84	63	36	37	45	64	35	48
58	Oil-exporting countries[5]	....	2,814	2,814	2,239	2,368	2,075	1,732	1,321	1,115	1,033
59	Other[4]	808	383	383	491	593	532	524	521	586	609
60	*Other countries*	*3,190*	*2,831*	*2,831*	*2,128*	2,087	1,824	1,763	1,598	2,019	2,339
61	Australia	3,131	2,742	2,742	2,014	1,964	1,711	1,645	1,486	1,911	2,224
62	All other	59	89	89	114	122	114	119	112	108	116
63	**Nonmonetary international and regional organizations**	**1,955**	**3,171**	**3,171**	**5,293**	**5,649**	**5,966**	**5,102**	**5,506**	**5,450**	**4,650**
64	International	1,627	2,900	2,900	5,064	5,285	5,613	4,717	5,109	5,091	4,300
65	Latin American regional	272	202	202	187	168	154	182	160	136	160
66	Other regional[6]	57	69	69	42	196	199	203	237	223	190

For notes see bottom of p. A59.

3.17 SHORT-TERM LIABILITIES TO FOREIGNERS Reported by Banks in the United States
Supplemental "Other" Countries [1]

Millions of dollars; end of period

	Area and country	1974 Apr.	1974 Dec.	1975 Apr.	1975 Dec.	1976 Apr.
	Other Western Europe:					
1	Cyprus	10	7	17	6	......
2	Iceland	11	21	20	33	......
3	Ireland, Republic of	53	29	29	75	39
	Other Eastern Europe:					
4	Bulgaria	6	36	13	19	13
5	Czechoslovakia	19	34	11	32	10
6	German Democratic Republic	3	36	18	17	3
7	Hungary	8	14	11	13	10
8	Poland	36	55	42	66	65
9	Rumania	16	25	14	44	28
	Other Latin American republics:					
10	Bolivia	102	96	93	110	104
11	Costa Rica	88	118	120	124	69
12	Dominican Republic	137	128	214	169	149
13	Ecuador	90	122	157	120	......
14	El Salvador	129	129	144	171	128
15	Guatemala	245	219	255	260	177
16	Haiti	28	35	34	38	33
17	Honduras	71	88	92	99	69
18	Jamaica	52	69	62	41	49
19	Nicaragua	119	127	125	133	89
20	Paraguay	40	46	38	43	43
21	Surinam[2]	......	......	......	......	12
22	Trinidad and Tobago	21	107	31	131	......
	Other Latin America:					
23	Bermuda	201	116	100	170	......
24	British West Indies	354	449	627	1,311	......
	Other Asia:					
25	Afghanistan	11	18	19	41	54
26	Bangladesh	12	21	50	54	......
27	Burma	42	65	49	31	34
28	Cambodia	4	4	4	4	......
29	Jordan	6	22	30	39	20
30	Laos	3	3	5	2	2
31	Lebanon	68	126	180	117	......
32	Malaysia	40	63	92	77	105
33	Nepal	21	25	22	28	34
34	Pakistan	108	91	118	74	89
35	Singapore	165	245	215	256	......
36	Sri Lanka (Ceylon)	13	14	13	13	9
37	Vietnam	98	126	70	62	33
	Other Africa:					
38	Ethiopia (incl. Eritrea)	118	95	76	60	70
39	Ghana	22	18	13	23	......
40	Ivory Coast	13	7	11	62	......
41	Kenya	20	31	32	19	37
42	Liberia	29	39	33	53	61
43	Southern Rhodesia	1	2	3	1	1
44	Sudan	2	4	14	12	17
45	Tanzania	12	11	21	30	18
46	Tunisia	17	19	23	29	33
47	Uganda	11	13	38	22	......
48	Zambia	66	22	18	78	......
	All Other:					
49	New Zealand	33	47	36	42	29

[1] Represents a partial breakdown of the amounts shown in the "Other" categories on Table 3.16.

[2] Surinam included with Netherlands Antilles until January 1976.

3.18 LONG-TERM LIABILITIES TO FOREIGNERS Reported by Banks in the United States
Millions of dollars; end of period

	Holder, and area or country	1973	1974	1975	1976 July[r]	1976 Aug.[r]	1976 Sept.[r]	1976 Oct.[r]	1976 Nov.[r]	1976 Dec.[p]	1977 Jan.[p]
1	**Total**	**1,462**	**1,285**	**1,812**	**2,271**	**2,242**	**2,206**	**2,315**	**2,310**	**2,393**	**2,349**
2	**Nonmonetary international and regional organizations**	**761**	**822**	**415**	**235**	**246**	**214**	**333**	**308**	**261**	**264**
3	**Foreign countries**	**700**	**464**	**1,397**	**2,026**	**1,991**	**1,991**	**1,962**	**2,003**	**2,132**	**2,085**
4	Official institutions, including central banks	310	124	931	1,454	1,402	1,386	1,314	1,313	1,352	1,242
5	Banks, excluding central banks	291	261	364	438	445	446	499	524	585	620
6	Other foreigners	100	79	100	143	149	159	170	165	194	224
	Area or country:										
7	Europe	470	226	330	451	457	458	489	507	525	571
8	Germany	159	146	214	307	311	312	310	309	313	313
9	United Kingdom	66	59	66	85	88	87	99	125	132	157
10	Canada	8	19	23	26	26	26	26	26	29	31
11	Latin America	132	115	140	117	122	125	151	152	230	244
12	Middle East oil-exporting countries[1]	....	94	894	1,423	1,369	1,340	1,286	1,239	1,251	1,166
13	Other Asia[2]	82	7	8	17	19	41	27	77	96	68
14	African oil-exporting countries[3]	....	*	*	*	*	*	*	*	*	*
15	Other Africa[4]	1	1	1	1	1	1	1	1	1	2
16	All other countries	7	*	*	1	1	1	1	1	1	4

[1] Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

[2] Includes Middle East oil-exporting countries until December 1974.

[3] Comprises Algeria, Gabon, Libya, and Nigeria.

[4] Includes African oil-exporting countries until December 1974.

NOTE.—Long-term obligations are those having an original maturity of more than 1 year.

NOTES TO TABLE 3.16:

[1] Includes Bank for International Settlements.

[2] Surinam included with Netherlands Antilles until January 1976.

[3] Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

[4] Includes oil-exporting countries until December 1974.

[5] Comprises Algeria, Gabon, Libya, and Nigeria.

[6] Asian, African, and European regional organizations, except BIS, which is included in "Other Western Europe."

[7] Data in the two columns shown for this date differ because of changes in reporting coverage. Figures in the first column are comparable with those shown for the preceding date; figures in the second column are comparable with those shown for the following date.

3.19 SHORT-TERM CLAIMS ON FOREIGNERS Reported by Banks in the United States

By Country

Millions of dollars; end of period

	Area and country	1973	1974	1975 r	1976						1977
					July r	Aug. r	Sept. r	Oct. r	Nov. r	Dec. p	Jan. p
1	**Total**	**20,723**	**39,056**	**50,231**	**59,316**	**58,014**	**60,317**	**60,986**	**63,890**	**68,885**	**63,663**
2	**Foreign countries**	**20,723**	**39,055**	**50,229**	**59,308**	**58,002**	**60,305**	**60,981**	**63,884**	**68,880**	**63,656**
3	*Europe*	*3,970*	*6,255*	*8,987*	*9,995*	*9,479*	*9,436*	*10,435*	*10,797*	*12,082*	*10,441*
4	Austria	11	21	15	24	24	47	42	54	44	41
5	Belgium-Luxembourg	147	384	352	555	465	437	504	501	662	554
6	Denmark	48	46	49	68	50	57	64	129	85	72
7	Finland	108	122	128	133	176	129	137	136	141	137
8	France	621	673	1,471	1,100	929	1,169	1,096	1,098	1,448	1,246
9	Germany	311	589	436	430	412	498	585	577	563	512
10	Greece	35	64	49	70	68	117	88	76	79	81
11	Italy	316	345	370	644	617	648	733	877	929	875
12	Netherlands	133	348	300	253	268	256	399	240	304	246
13	Norway	72	119	71	74	78	68	79	85	98	124
14	Portugal	23	20	16	53	57	55	46	53	65	80
15	Spain	222	196	249	302	239	265	264	304	429	362
16	Sweden	153	180	167	97	143	106	101	93	177	112
17	Switzerland	176	335	237	374	442	417	499	511	472	539
18	Turkey	10	15	86	81	77	80	125	140	183	199
19	United Kingdom	1,459	2,580	4,718	5,435	5,167	4,844	5,376	5,591	6,068	4,864
20	Yugoslavia	10	22	38	45	40	28	37	38	45	60
21	Other Western Europe	25	22	27	42	50	56	54	58	56	57
22	U.S.S.R.	46	46	103	69	53	52	83	103	99	82
23	Other Eastern Europe	44	131	108	147	125	107	123	134	135	200
24	*Canada*	*1,955*	*2,776*	*2,817*	*3,027*	*3,050*	*3,169*	*3,129*	*3,136*	*3,100*	*2,944*
25	*Latin America*	*5,900*	*12,377*	*20,532*	*28,461*	*27,607*	*30,042*	*29,275*	*31,580*	*33,898*	*31,447*
26	Argentina	499	720	1,203	1,149	1,149	961	902	858	962	924
27	Bahamas	883	3,405	7,570	12,367	11,519	14,192	12,587	14,594	15,205	13,901
28	Brazil	900	1,418	2,221	2,633	2,772	2,891	3,125	3,259	3,383	3,456
29	Chile	151	290	360	364	352	343	350	358	396	370
30	Colombia	397	713	689	537	501	459	517	523	575	593
31	Cuba	12	14	13	13	13	13	13	14	13	13
32	Mexico	1,373	1,972	2,803	3,561	3,559	3,457	3,211	3,285	3,414	3,356
33	Panama	274	505	1,052	697	778	809	1,119	781	1,021	770
34	Peru	178	518	583	665	666	694	638	629	690	731
35	Uruguay	55	63	51	31	31	28	28	35	38	41
36	Venezuela	518	704	1,086	1,237	1,503	1,305	1,338	1,512	1,552	1,296
37	Other American republics	493	852	967	1,059	978	1,112	1,037	1,068	1,140	1,132
38	Netherlands Antilles[1]	13	62	49	28	29	42	41	43	40	45
39	Other Latin America	154	1,142	1,885	4,121	3,759	3,737	4,369	4,620	5,469	4,821
40	*Asia*	*8,224*	*16,226*	*16,057*	*15,898*	*15,832*	*15,695*	*16,099*	*16,365*	*17,765*	*16,687*
41	China, People's Republic of (Mainland)	31	4	22	12	4	4	5	3	3	4
42	China, Republic of (Taiwan)	140	500	736	908	939	981	991	1,099	987	1,028
43	Hong Kong	147	223	258	296	251	252	208	267	361	229
44	India	16	14	21	36	36	33	64	48	41	28
45	Indonesia	88	157	102	125	108	119	117	120	76	54
46	Israel	155	255	491	269	257	313	320	330	554	352
47	Japan	6,398	12,518	10,776	10,340	10,116	10,220	10,534	10,428	10,992	10,581
48	Korea	403	955	1,561	1,614	1,551	1,594	1,555	1,577	1,722	1,700
49	Philippines	181	372	384	389	459	472	478	495	559	586
50	Thailand	273	458	499	465	437	434	415	414	422	421
51	Middle East oil-exporting countries[2]	.....	330	524	780	836	721	765	1,082	1,312	994
52	Other[3]	392	441	684	665	838	553	647	503	735	710
53	*Africa*	*388*	*855*	*1,228*	*1,310*	*1,395*	*1,332*	*1,382*	*1,394*	*1,486*	*1,519*
54	Egypt	35	111	101	117	115	114	106	109	132	151
55	Morocco	5	18	9	18	15	17	8	14	13	19
56	South Africa	129	329	545	698	695	691	772	748	763	798
57	Zaire	61	98	34	24	24	23	14	25	29	16
58	Oil-exporting countries[4]	.....	115	231	185	268	176	215	213	256	238
59	Other[3]	158	185	308	269	278	312	267	284	293	297
60	*Other countries*	*286*	*565*	*609*	*617*	*638*	*631*	*661*	*612*	*549*	*617*
61	Australia	243	466	535	542	553	521	558	502	450	512
62	All other	43	99	73	74	85	110	103	110	99	105
63	**Nonmonetary international and regional organizations**	**1**	*****	**1**	**8**	**12**	**12**	**5**	**6**	**5**	**7**

1 Includes Surinam until January 1976.

2 Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3 Includes oil-exporting countries until December 1974.

4 Comprises Algeria, Gabon, Libya, and Nigeria.

3.20 SHORT-TERM CLAIMS ON FOREIGNERS Reported by Banks in the United States
By Type of Claim

Millions of dollars; end of period

Type	1973	1974	1975	1976 July r	1976 Aug. r	1976 Sept. r	1976 Oct. r	1976 Nov. r	1976 Dec. p	1977 Jan. p
1 **Total**	**20,723**	**39,056**	**r50,231**	**59,316**	**58,014**	**60,317**	**60,986**	**63,890**	**68,885**	**63,663**
2 *Payable in dollars*	*20,061*	*37,859*	*r48,902*	*57,859*	*59,556*	*58,661*	*59,330*	*62,085*	*67,240*	*61,947*
3 Loans, total	7,660	r11,291	r13,205	15,586	15,270	14,914	16,221	16,191	18,357	16,143
4 Official institutions, including central banks	284	381	613	730	1,009	781	1,055	1,269	1,451	1,250
5 Banks, excluding central banks	4,538	r7,332	r7,665	9,660	9,060	9,003	10,015	9,639	11,091	9,378
6 All other, including nonmonetary international and regional organizations	2,838	3,579	r4,926	5,196	5,202	5,130	5,151	5,282	5,814	5,516
7 Collections oustanding	4,307	5,637	5,467	5,542	5,495	5,746	5,586	5,628	5,846	5,834
8 Acceptances made for accounts of foreigners	4,160	11,237	11,147	11,451	11,144	11,213	11,461	11,422	12,367	12,021
9 Other claims[1]	3,935	9,689	r19,082	25,280	24,562	26,789	26,015	28,843	30,670	27,949
10 *Payable in foreign currencies*	*662*	*1,196*	*1,329*	*1,457*	*1,542*	*1,656*	*1,704*	*1,805*	*1,645*	*1,716*
11 Deposits with foreigners	428	669	656	850	903	1,029	1,052	1,084	1,063	1,113
12 Foreign government securities, commercial and finance paper	119	289	301	132	143	120	102	85	84	145
13 Other claims	115	238	372	475	496	507	550	635	498	458

1 Includes claims of U.S. banks on their foreign branches and claims of U.S. agencies and branches of foreign banks on their head offices and foreign branches of their head offices.

NOTE.—Short-term claims are principally the following items payable on demand or with a contractual maturity of not more than 1 year: loans made to, and acceptances made for, foreigners; drafts drawn against foreigners, where collection is being made by banks and bankers for their own account or for account of their customers in the United States; and foreign currency balances held abroad by banks and bankers and their customers in the United States. Excludes foreign currencies held by U.S. monetary authorities.

3.21 LONG-TERM CLAIMS ON FOREIGNERS Reported by Banks in the United States

Millions of dollars outstanding; end of period

Type, and area or country	1973	1974	1975	1976 July[1] r	1976 Aug. r	1976 Sept. r	1976 Oct. r	1976 Nov. r	1976 Dec. p	1977 Jan. p
1 **Total**	**5,996**	**7,179**	**9,540**	**10,385**	**10,955**	**11,205**	**11,345**	**11,612**	**11,675**	**11,686**
By type:										
2 *Payable in dollars*	*5,924*	*7,099*	*9,423*	*10,252*	*10,822*	*11,063*	*11,206*	*11,465*	*11,527*	*11,536*
3 *Loans, total*	*5,446*	*6,490*	*r8,316*	*8,867*	*9,357*	*9,551*	*9,670*	*9,837*	*9,921*	*9,925*
4 Official institutions, including central banks	1,156	1,324	1,350	1,321	1,338	1,312	1,323	1,364	1,420	1,402
5 Banks, excluding central banks	591	929	1,567	1,850	1,979	2,039	2,115	2,164	2,202	2,185
6 All other, including nonmonetary international and regional organizations	3,698	4,237	5,399	5,695	6,040	6,201	6,232	6,308	6,298	6,338
7 Other long-term claims	478	609	r1,107	1,386	1,465	1,512	1,536	1,628	1,606	1,611
8 *Payable in foreign currencies*	*72*	*80*	*116*	*133*	*133*	*142*	*139*	*147*	*148*	*150*
By area or country:										
9 Europe	1,271	1,908	2,708	2,871	3,093	3,133	3,191	3,285	3,236	3,303
10 Canada	490	501	555	575	592	623	570	590	586	520
11 Latin America	2,116	2,614	3,468	4,102	4,382	4,519	4,565	4,694	4,806	4,877
12 *Asia*	*1,582*	*1,619*	*1,795*	*1,810*	*1,835*	*1,856*	*1,901*	*1,885*	*1,886*	*1,839*
13 Japan	251	258	296	337	355	370	381	368	391	387
14 Middle East oil-exporting countries[1]	....	384	220	183	187	171	171	141	146	117
15 Other Asia[2]	1,331	977	1,279	1,290	1,667	1,315	1,349	1,376	1,349	1,335
16 *Africa*	*355*	*366*	*747*	*742*	*771*	*800*	*839*	*888*	*883*	*852*
17 Oil-exporting countries[3]	....	62	151	212	226	236	259	269	264	201
18 Other[4]	355	305	596	530	545	564	580	619	619	651
19 All other countries[5]	181	171	267	245	239	233	281	226	234	251

1 Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2 Includes Middle East oil-exporting countries until December 1974.

3 Comprises Algeria, Gabon, Libya, and Nigeria.

4 Includes oil-exporting countries until December 1974.

5 Includes nonmonetary international and regional organizations.

3.22 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data

Millions of dollars; end of period

Asset account	1973	1974	1975	1976						
				June[r]	July[r]	Aug.[r]	Sept.[r]	Oct.[r]	Nov.	Dec.[p]
				All foreign countries						
1 **Total, all currencies**	**121,866**	**151,905**	**176,493**	**194,554**	**196,865**	**196,174**	**199,843**	**206,383**	**207,372**	**219,542**
2 *Claims on United States*	*5,091*	*6,900*	*6,743*	*6,618*	*8,709*	*6,980*	*6,628*	*9,939*	*7,557*	*7,908*
3 Parent bank	1,886	4,464	3,665	3,277	5,575	3,934	3,248	6,834	4,280	4,390
4 Other	3,205	2,435	3,078	3,341	3,134	3,046	3,381	3,105	3,276	3,518
5 *Claims on foreigners*	*111,974*	*138,712*	*163,391*	*181,307*	*181,323*	*182,499*	*186,192*	*189,317*	*192,609*	*204,597*
6 Other branches of parent bank	19,177	27,559	34,508	41,010	41,738	41,000	41,174	41,812	42,729	46,566
7 Other banks	56,368	60,283	69,206	74,402	71,762	71,802	74,796	76,152	77,179	83,417
8 Official institutions	2,693	4,077	5,792	7,814	8,444	8,766	9,208	9,205	9,540	10,598
9 Nonbank foreigners	33,736	46,793	53,886	58,080	59,379	60,932	61,015	62,148	63,162	64,016
10 Other assets	4,802	6,294	6,359	6,629	6,834	6,695	7,022	7,128	7,206	7,037
11 **Total payable in U.S. dollars**	**79,445**	**105,969**	**132,901**	**146,034**	**149,124**	**147,245**	**150,434**	**156,031**	**156,364**	**167,961**
12 *Claims on United States*	*4,599*	*6,603*	*6,408*	*6,301*	*8,440*	*6,666*	*6,269*	*9,595*	*7,214*	*7,614*
13 Parent bank	1,848	4,428	3,628	3,208	5,530	3,895	3,184	6,790	4,218	4,330
14 Other	2,751	2,175	2,780	3,093	2,910	2,771	3,085	2,805	2,996	3,284
15 *Claims on foreigners*	*73,018*	*96,209*	*123,496*	*136,663*	*137,293*	*137,374*	*140,919*	*143,083*	*145,837*	*157,149*
16 Other branches of parent bank	12,799	19,688	28,478	32,890	33,843	33,009	33,358	34,051	34,382	38,521
17 Other banks	39,527	45,067	55,319	58,856	56,597	56,422	58,877	59,316	60,246	66,100
18 Official institutions	1,777	3,289	4,864	6,611	7,148	7,606	7,906	7,885	8,289	9,007
19 Nonbank foreigners	18,915	28,164	34,835	38,306	39,705	40,337	40,779	41,831	42,920	43,521
20 Other assets	1,828	3,157	2,997	3,070	3,392	3,206	3,246	3,353	3,314	3,198
				United Kingdom						
21 **Total, all currencies**	**61,732**	**69,804**	**74,883**	**74,460**	**73,494**	**73,229**	**73,589**	**76,854**	**77,249**	**81,450**
22 *Claims on United States*	*1,789*	*3,248*	*2,392*	*1,702*	*1,862*	*1,758*	*2,036*	*3,256*	*3,426*	*3,355*
23 Parent bank	738	2,472	1,449	802	1,002	938	1,081	2,413	2,538	2,376
24 Other	1,051	776	943	900	860	821	955	843	888	979
25 *Claims of foreigners*	*57,761*	*64,111*	*70,331*	*70,526*	*69,359*	*69,298*	*69,217*	*71,162*	*71,477*	*75,842*
26 Other branches of parent bank	8,773	12,724	17,557	18,143	18,843	18,044	17,745	18,358	17,949	19,737
27 Other banks	34,442	32,701	35,904	35,799	33,589	34,135	34,405	35,336	35,846	38,089
28 Official institutions	735	788	881	888	909	1,007	1,138	1,211	1,168	1,274
29 Nonbank foreigners	13,811	17,898	15,990	15,695	16,018	16,112	15,929	16,257	16,514	16,742
30 Other assets	2,183	2,445	2,159	2,233	2,273	2,173	2,335	2,436	2,345	2,253
31 **Total payable in U.S. dollars**	**40,323**	**49,211**	**57,361**	**55,360**	**54,871**	**54,522**	**54,547**	**57,161**	**57,699**	**61,571**
32 *Claims on United States*	*1,642*	*3,146*	*2,273*	*1,614*	*1,780*	*1,658*	*1,902*	*3,124*	*3,313*	*3,276*
33 Parent bank	730	2,468	1,445	795	997	934	1,064	2,406	2,523	2,374
34 Other	912	678	828	819	783	724	838	719	789	903
35 *Claims on foreigners*	*37,817*	*44,694*	*54,121*	*52,900*	*52,250*	*52,006*	*51,782*	*53,112*	*53,541*	*57,471*
36 Other branches of parent bank	6,509	10,265	15,645	15,455	16,204	15,401	15,195	15,829	15,405	17,233
37 Other banks	23,389	23,716	28,224	27,066	25,370	25,826	25,866	26,421	27,008	28,983
38 Official institutions	510	610	648	631	659	799	862	912	817	846
39 Nonbank foreigners	7,409	10,102	9,604	9,747	10,018	9,980	9,859	9,950	10,311	10,409
40 Other assets	865	1,372	967	846	841	858	863	925	845	824
				Bahamas and Caymans						
41 **Total, all currencies**	**23,771**	**31,733**	**45,203**	**57,118**	**59,913**	**57,677**	**60,753**	**63,508**	**61,758**	**67,144**
42 *Claims on United States*	*2,210*	*2,464*	*3,229*	*3,716*	*5,835*	*3,554*	*3,330*	*5,464*	*2,892*	*3,418*
43 Parent bank	317	1,081	1,477	1,636	3,864	1,641	1,257	3,490	766	1,095
44 Other	1,893	1,383	1,752	2,081	1,971	1,913	2,072	1,973	2,126	2,323
45 *Claims on foreigners*	*21,041*	*28,453*	*41,040*	*52,363*	*52,898*	*52,933*	*56,255*	*56,806*	*57,634*	*62,513*
46 Other branches of parent bank	1,928	3,478	5,411	7,254	7,149	6,791	7,250	7,296	7,389	8,853
47 Other banks	9,895	11,354	16,298	21,205	20,669	20,217	22,447	22,136	22,438	25,195
48 Official institutions	1,151	2,022	3,576	5,160	5,699	5,929	6,059	6,040	6,485	7,101
49 Nonbank foreigners	8,068	11,599	15,756	18,744	19,381	19,995	20,498	21,334	21,322	21,365
50 Other assets	520	815	933	1,039	1,180	1,190	1,169	1,239	1,232	1,213
51 **Total payable in U.S. dollars**	**21,937**	**28,726**	**41,887**	**53,365**	**56,076**	**53,520**	**56,600**	**59,219**	**57,672**	**63,084**

3.22 Continued

Liability account	1973	1974	1975	1976 June	July^r	Aug.	Sept.^r	Oct.	Nov.	Dec.^p
					All foreign countries					
1 **Total, all currencies**	**121,866**	**151,905**	**176,493**	**194,554**	**196,865**	**196,174**	**199,843**	**206,383**	**207,372**	**219,542**
2 *To United States*	*5,610*	*11,982*	*20,221*	*27,897*	*28,616*	*27,118*	*29,978*	*29,457*	*30,757*	*31,428*
3 Parent bank	1,642	5,809	12,165	16,430	15,947	16,495	18,957	17,869	19,058	18,067
4 Other	3,968	6,173	8,057	11,467	12,669	10,623	11,020	11,588	11,699	13,361
5 *To foreigners*	*111,615*	*132,990*	*149,815*	*160,436*	*161,637*	*162,711*	*163,318*	*170,083*	*169,862*	*181,299*
6 Other branches of parent bank	18,213	26,941	34,111	39,979	41,064	40,071	40,119	41,044	41,650	46,458
7 Other banks	65,389	65,675	72,259	75,537	74,211	74,367	75,054	78,912	77,810	83,308
8 Official institutions	10,330	20,185	22,773	21,635	22,279	23,428	23,731	25,019	23,967	25,828
9 Nonbank foreigners	17,683	20,189	20,672	23,285	24,084	24,844	24,414	25,107	26,436	25,705
10 Other liabilities	4,641	6,933	6,456	6,221	6,612	6,346	6,547	6,844	6,753	6,815
11 **Total payable in U.S. dollars**	**80,374**	**107,890**	**135,907**	**150,536**	**153,221**	**151,788**	**155,149**	**160,440**	**160,824**	**173,326**
12 *To United States*	*5,027*	*11,437*	*19,503*	*27,094*	*27,848*	*26,348*	*29,088*	*28,683*	*29,866*	*30,641*
13 Parent bank	1,477	5,641	11,939	16,156	15,691	16,254	18,624	17,633	18,821	17,854
14 Other	3,550	5,795	7,564	10,938	12,157	10,094	10,464	11,049	11,046	12,787
15 *To foreigners*	*73,189*	*92,503*	*112,879*	*120,178*	*121,997*	*122,187*	*122,677*	*128,358*	*127,535*	*139,088*
16 Other branches of parent bank	12,554	19,330	28,217	32,760	33,852	32,690	32,921	33,850	33,951	39,189
17 Other banks	43,641	43,656	51,583	54,085	53,573	53,298	53,505	56,302	55,464	60,170
18 Official institutions	7,491	17,444	19,982	19,066	19,625	20,620	20,787	21,910	20,924	22,877
19 Nonbank foreigners	9,502	12,072	13,097	14,267	14,947	15,579	15,465	16,296	17,196	16,852
20 Other liabilities	2,158	3,951	3,526	3,263	3,377	3,252	3,383	3,400	3,422	3,597
					United Kingdom					
21 **Total, all currencies**	**61,732**	**69,804**	**74,883**	**74,460**	**73,494**	**73,229**	**73,589**	**76,854**	**77,249**	**81,450**
22 *To United States*	*2,431*	*3,978*	*5,646*	*5,874*	*5,628*	*5,266*	*5,379*	*5,310*	*5,520*	*5,997*
23 Parent bank	136	510	2,122	1,562	1,727	1,520	1,442	1,468	1,459	1,198
24 Other	2,295	3,468	3,523	4,312	3,901	3,746	3,938	3,842	4,061	4,798
25 *To foreigners*	*57,311*	*63,409*	*67,240*	*66,536*	*65,594*	*65,883*	*66,026*	*69,151*	*69,368*	*73,212*
26 Other branches of parent bank	3,944	4,762	6,494	7,288	6,927	6,668	6,788	6,826	6,783	7,092
27 Other banks	34,979	32,040	32,964	33,313	31,487	30,834	31,015	32,488	33,690	36,243
28 Official institutions	8,140	15,258	16,553	14,825	15,462	16,147	16,389	17,567	16,181	17,273
29 Nonbank foreigners	10,248	11,349	11,229	11,110	11,718	12,234	11,834	12,270	12,713	12,605
30 Other liabilities	1,990	2,418	1,997	2,050	2,272	2,080	2,184	2,394	2,360	2,241
31 **Total payable in U.S. dollars**	**39,689**	**49,666**	**57,820**	**56,574**	**55,978**	**55,701**	**55,625**	**58,031**	**58,757**	**63,158**
32 *To United States*	*2,173*	*3,744*	*5,415*	*5,682*	*5,443*	*5,093*	*5,183*	*5,152*	*5,330*	*5,849*
33 Parent bank	113	484	2,083	1,546	1,703	1,498	1,404	1,448	1,447	1,182
34 Other	2,060	3,261	3,332	4,136	3,740	3,595	3,779	3,704	3,883	4,666
35 *To foreigners*	*36,646*	*44,594*	*51,447*	*50,044*	*49,691*	*49,746*	*49,579*	*52,017*	*52,503*	*56,356*
36 Other branches of parent bank	2,519	3,256	5,442	6,218	5,878	5,604	5,790	5,742	5,520	5,874
37 Other banks	22,051	20,526	23,330	22,690	21,765	20,910	20,526	21,493	23,040	25,511
38 Official institutions	5,923	13,225	14,498	13,074	13,604	14,296	14,418	15,550	14,283	15,423
39 Nonbank foreigners	6,152	7,587	8,176	8,062	8,444	8,936	8,846	9,233	9,660	9,547
40 Other liabilities	870	1,328	959	848	844	862	862	862	924	953
					Bahamas and Caymans					
41 **Total, all currencies**	**23,771**	**31,733**	**45,203**	**57,118**	**59,913**	**57,677**	**60,753**	**63,508**	**61,758**	**67,144**
42 *To United States*	*1,573*	*4,815*	*11,147*	*18,213*	*19,370*	*18,237*	*21,218*	*20,640*	*21,144*	*21,315*
43 Parent bank	307	2,636	7,628	12,130	11,611	12,311	15,243	14,000	14,797	14,337
44 Other	1,266	2,180	3,520	6,083	7,759	5,927	5,975	6,640	6,347	6,978
45 *To foreigners*	*21,747*	*26,140*	*32,949*	*37,817*	*39,411*	*38,380*	*38,411*	*41,815*	*39,515*	*44,692*
46 Other branches of parent bank	5,508	7,702	10,569	12,117	13,317	12,416	11,854	13,381	12,931	16,085
47 Other banks	14,071	14,050	16,825	19,724	20,350	20,125	20,621	22,240	19,525	21,429
48 Official institutions	492	2,377	3,308	2,917	2,811	2,857	2,712	2,784	3,198	3,573
49 Nonbank foreigners	1,676	2,011	2,248	3,059	2,933	2,982	3,224	3,409	3,861	3,606
50 Other liabilities	451	778	1,106	1,088	1,131	1,059	1,125	1,053	1,099	1,137
51 **Total payable in U.S. dollars**	**22,328**	**28,840**	**42,197**	**53,834**	**56,636**	**54,154**	**57,232**	**59,972**	**58,244**	**63,794**

3.23 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Holdings and Transactions

Millions of dollars

	Country or area	1974	1975	1976	1976 July r	Aug. r	Sept. r	Oct. r	Nov.	Dec. p	1977 Jan. p
		Holding, end of period[4]									
1	**Estimated total**	**5,708**	**7,703**	....	**r11,424**	**r12,153**	**r13,467**	**r14,487**	**r15,063**	**r15,798**	**16,313**
2	**Foreign countries**	**5,557**	**7,372**	....	***10,350***	***10,746***	***11,671***	***11,954***	**12,337**	**r12,765**	**13,019**
3	*Europe*	*885*	*1,085*	....	*1,604*	*1,733*	*2,024*	*2,064*	*2,293*	*r2,330*	*2,305*
4	Belgium-Luxembourg	10	13	....	11	9	9	13	14	14	14
5	Germany	9	215	....	221	324	518	535	746	764	764
6	Netherlands	6	16	....	283	283	282	283	288	288	287
7	Sweden	251	276	....	291	275	240	242	192	191	191
8	Switzerland	30	55	....	132	171	268	267	291	261	270
9	United Kingdom	493	363	....	368	383	396	403	433	485	481
10	Other Western Europe	81	143	....	294	284	307	317	325	r323	294
11	Eastern Europe	5	4	....	4	4	4	4	4	4	4
12	Canada	713	395	....	341	337	386	390	250	256	256
13	Latin America	100	200	....	203	271	178	160	302	312	315
14	Latin American republics	12	33	....	39	39	30	36	177	184	176
15	Netherlands Antilles[1]	83	161	....	157	222	138	113	115	118	125
16	Asia	3,709	5,370	....	7,701	7,883	8,552	8,808	8,950	9,323	9,637
17	Japan	3,498	3,271	....	3,077	2,952	3,052	3,093	2,587	2,687	2,692
18	Africa	151	321	....	501	521	531	531	543	543	506
19	All other	*	*	....	*	*	*	*	*	*	*
20	**Nonmonetary international and regional organizations**	**151**	**331**	....	**r1,073**	**r1,406**	**r1,796**	**r2,533**	**r2,726**	**r3,033**	**3,294**
21	International	97	322	....	1,065	1,388	1,768	2,504	2,655	2,905	3,180
22	Latin American regional	53	9	....	r8	r18	r28	r28	r71	r128	114
		Transactions, net purchases, or sales (−), during period									
23	**Total**	**472**	**1,994**	**r8,095**	**r815**	**729**	**1,315**	**1,019**	**577**	**r735**	**515**
24	**Foreign countries**	**−573**	**1,814**	**r5,393**	**324**	**396**	**925**	**283**	**383**	**r428**	**254**
25	Official institutions	−642	1,612	5,116	294	316	964	227	340	421	229
26	Other foreign	69	202	276	31	80	−39	56	43	6	25
27	***Nonmonetary international and regional organizations***	**101**	**180**	**2,698**	**r491**	**333**	**390**	**736**	**193**	**307**	**261**
	Memo: Oil-exporting countries										
28	Middle East[2]	....	1,797	r3,886	246	228	315	98	630	140	254
29	Africa[3]	....	170	221	30	20	10	....	11	....	−37

1 Includes Surinam until January 1976.
2 Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States). Data not available until 1975.
3 Comprises Algeria, Gabon, Libya, and Nigeria. Data not available until 1975.
4 Estimated official and private holdings of marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on a benchmark survey of holdings as of Jan. 31, 1971, and monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

3.24 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS

Millions of dollars outstanding, end of period

	Assets	1973	1974	1975	1976 Aug.	Sept.	Oct.	Nov.	Dec.	1977 Jan.	Feb.
1	Deposits	251	418	352	254	393	362	305	352	383	361
	Assets held in custody:										
2	U.S. Treasury securities[1]	52,070	55,600	60,019	63,457	64,215	64,942	63,962	66,532	66,992	68,653
3	Earmarked gold[2]	17,068	16,838	16,745	16,565	16,590	16,505	16,457	16,414	16,343	16,304

1 Marketable U.S. Treasury bills, certificates of indebtedness, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.
2 The value of earmarked gold increased because of the changes in par value of the U.S. dollar in May 1972 and in October 1973.

Note.—Excludes deposits and U.S. Treasury securities held for international and regional organizations. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.25 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

	Transactions, and area or country	1974	1975	1976	1976 July^r	1976 Aug.^{r}	1976 Sept.^{r}	1976 Oct.^{r}	1976 Nov.	1976 Dec.^{p}	1977 Jan.^{p}
					U.S. corporate securities[3]						
	Stocks:										
1	Foreign purchases	7,636	15,347	18,227	1,605	1,062	1,124	1,226	977	1,562	1,410
2	Foreign sales	7,096	10,678	15,474	1,363	971	1,116	1,321	1,025	1,287	1,139
3	**Net purchases, or sales ( )**	**540**	**4,669**	**2,752**	**242**	**91**	**9**	**95**	**49**	**274**	**271**
4	**Foreign countries**	**527**	**4,651**	**2,740**	**244**	**87**	**7**	**-98**	**-50**	**281**	**274**
5	Europe	281	2,491	336	-32	-15	-60	-251	-118	111	115
6	France	203	262	256	72	28	23	12	-25	37	27
7	Germany	39	251	68	20	13	-6	-16	-13	24	1
8	Netherlands	330	359	199	-22	-21	-26	-37	29	-35	23
9	Switzerland	36	899	100	-58	6	-55	-95	-44	7	40
10	United Kingdom	-377	594	340	5	13	29	-72	5	84	24
11	Canada	-6	361	325	55	35	5	18	1	60	5
12	Latin America	-33	-7	155	3	-26	10	17	25	1	6
13	Middle East[1]	....	1,640	1,803	209	92	60	126	64	115	100
14	Other Asia[2]	288	142	117	10	-2	-4	28	-23	9	45
15	Africa	-6	10	7	-3	-3	-4	-3	1	2	2
16	Other countries	3	15	-4	1	2	*	1	*	-17	2
17	**Nonmonetary international and regional organizations**	**13**	**18**	**12**	**-2**	**3**	**2**	**4**	**2**	**-6**	**2**
	Bonds[3]:										
18	Foreign purchases	8,571	5,408	5,529	307	411	361	625	355	533	414
19	Foreign sales	7,582	4,642	4,322	156	237	375	386	364	524	339
20	**Net purchases, or sales (-)**	**988**	**766**	**1,207**	**151**	**174**	**-14**	**239**	**-9**	**9**	**75**
21	**Foreign countries**	**1,472**	**1,795**	**1,248**	**159**	**173**	**9**	**203**	**110**	**6**	**71**
22	Europe	741	113	92	49	29	-16	-10	24	53	3
23	France	96	82	49	10	4	-1	-1	5	7	-5
24	Germany	33	-6	-50	-3	-3	*	5	4	1	2
25	Netherlands	183	-8	-29	4	-3	*	-5	3	-20	2
26	Switzerland	96	117	158	35	16	-7	-2	-3	13	16
27	United Kingdom	395	-52	23	3	23	7	*	15	54	3
28	Canada	45	128	96	2	9	18	1	16	7	14
29	Latin America	43	31	94	7	9	5	29	6	27	-5
30	Middle East[1]	....	1,553	1,179	104	121	18	156	74	-21	59
31	Other Asia[2]	632	35	-165	-3	5	15	3	8	-43	1
32	Africa	*	5	-25	1	*	-19	-2	-2	-14	*
33	Other countries	10	1	21	*	*	*	*	*	-2	*
34	**Nonmonetary international and regional organizations**	**483**	**-1,030**	**-41**	**-8**	*****	**-4**	**64**	**-119**	**3**	**4**
					Foreign securities						
35	**Stocks, net purchases, or sales (−)**	**184**	**-189**	**-322**	**−129**	**-11**	**−27**	**-1**	**-1**	**4**	**-10**
36	Foreign purchases	1,907	1,541	1,937	128	123	126	132	167	217	203
37	Foreign sales	1,723	1,730	2,259	257	134	153	133	168	213	213
38	**Bonds, net purchases, or sales ( )**	**-2,218**	**−6,324**	**−8,547**	**1,748**	**-478**	**-427**	**-367**	**-400**	**-1,298**	**30**
39	Foreign purchases	1,036	2,383	4,932	440	333	363	452	455	670	816
40	Foreign sales	3,254	8,707	13,479	2,188	811	790	819	855	1,968	846
41	**Net purchases, or sales ( ) of stocks and bonds**	**-2,034**	**-6,514**	**-8,866**	**-1,877**	**-489**	**-454**	**369**	**-402**	**-1,290**	**-40**
42	**Foreign countries**	**−1,974**	**-4,323**	**-6,968**	**-1,059**	**−423**	**−471**	**−282**	**-270**	**−761**	**-330**
43	Europe	−546	-53	−835	−130	-60	-145	-37	-10	-139	-10
44	Canada	1,508	-3,202	-5,126	−868	-98	-331	301	-26	640	-300
45	Latin America	-93	-306	1	19	47	20	13	-28	37	25
46	Asia	142	622	640	-93	-317	-16	34	-10	-24	53
47	Africa	7	15	48	9	1	*	1	*	2	1
48	Other countries	22	-155	-416	3	3	2	9	−197	3	9
49	**Nonmonetary international and regional organizations**	**-60**	**-2,192**	**-1,898**	**−819**	**-66**	**17**	**-87**	**−132**	**-529**	**290**

[1] Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

[2] Includes Middle East oil-exporting countries until 1975.

[3] Includes State and local government securities, and securities of U.S. Govt. agencies and corporations. Also includes issues of new debt securities sold abroad by U.S. corporations organized to finance direct investment abroad.

3.26 SHORT-TERM LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Nonbanking Concerns in the United States

Millions of dollars; end of period

	Type, and area or country	1974	1975	1976			1974	1975	1976		
		Dec.	Dec.	Mar.	June	Sept.ᵖ	Dec.	Dec.	Mar.	June	Sept.ᵖ
		Liabilities to foreigners					Claims on foreigners				
1	**Total**	**5,927**	**6,010**	**6,326**	**6,301**	**6,335**	**11,266**	**12,172**	**12,733**	**13,889**	**13,220**
	By type:										
2	*Payable in dollars*	*5,017*	*5,393*	*5,659*	*5,663*	*5,696*	*10,241*	*11,025*	*11,688*	*12,895*	*12,173*
3	*Payable in foreign currencies*	*910*	*617*	*667*	*638*	*639*	*1,024*	*1,146*	*1,045*	*994*	*1,048*
4	Deposits with banks abroad in reporter's name						473	565	483	501	505
5	Other						551	581	562	493	543
	By area or country:										
6	**Foreign countries**	**5,769**	**5,734**	**6,108**	**6,056**	**6,149**	**11,265**	**12,171**	**12,732**	**13,888**	**13,220**
7	*Europe*	*3,016*	*2,338*	*2,342*	*2,284*	*2,282*	*4,450*	*4,504*	*4,946*	*5,344*	*5,162*
8	Austria	20	14	6	13	16	26	16	17	17	21
9	Belgium-Luxembourg	524	299	296	233	181	128	133	116	193	195
10	Denmark	24	9	12	12	13	42	39	35	30	26
11	Finland	16	14	10	7	21	120	91	36	138	139
12	France	202	149	205	159	185	428	293	358	365	418
13	Germany	313	149	152	228	256	335	355	305	360	489
14	Greece	39	19	25	29	28	65	33	41	47	56
15	Italy	124	172	124	115	126	395	380	406	335	357
16	Netherlands	117	114	162	170	141	143	167	176	147	141
17	Norway	9	20	22	22	24	36	41	58	52	43
18	Portugal	19	4	3	3	5	81	44	45	22	28
19	Spain	56	81	68	51	36	367	407	516	432	335
20	Sweden	41	29	25	24	35	89	62	80	84	62
21	Switzerland	138	130	159	213	239	136	242	207	270	254
22	Turkey	8	25	14	20	16	26	27	26	31	23
23	United Kingdom	1,256	996	928	845	806	1,847	1,905	2,289	2,609	2,370
24	Yugoslavia	40	76	91	108	113	22	36	30	28	30
25	Other Western Europe	5	8	6	7	8	21	14	18	14	17
26	U.S.S.R.	48	20	23	10	19	91	150	106	96	81
27	Other Eastern Europe	16	11	10	16	14	50	70	80	75	79
28	*Canada*	*307*	*295*	*316*	*373*	*332*	*1,613*	*2,109*	*2,244*	*2,211*	*2,224*
29	*Latin America*	*929*	*914*	*1,177*	*1,073*	*1,007*	*2,336*	*2,369*	*2,564*	*3,055*	*2,814*
30	Argentina	38	36	41	42	41	67	58	48	43	39
31	Bahamas	374	277	376	330	251	594	667	883	1,150	924
32	Brazil	118	96	91	90	53	468	409	475	462	417
33	Chile	22	14	11	15	16	106	36	27	46	26
34	Colombia	14	17	16	19	11	54	49	47	57	66
35	Cuba	*	*	*	*	*	1	1	1	1	1
36	Mexico	60	82	92	72	74	308	362	331	332	352
37	Panama	28	24	17	14	11	132	92	86	103	84
38	Peru	14	23	24	26	28	44	41	37	39	35
39	Uruguay	2	3	2	3	3	5	4	4	4	22
40	Venezuela	49	100	163	184	222	193	178	156	186	215
41	Other Latin American republics	83	71	71	95	100	199	160	171	185	180
42	Netherlands Antilles [1]	26	35	58	54	68	20	12	7	10	9
43	Other Latin America	101	138	214	130	129	147	301	292	437	445
44	*Asia*	*1,237*	*1,719*	*1,699*	*1,749*	*2,024*	*2,326*	*2,634*	*2,493*	*2,729*	*2,418*
45	China, People's Republic of (Mainland)	17	6	5	8	7	17	65	35	23	11
46	China, Republic of (Taiwan)	92	97	110	124	129	138	164	100	215	136
47	Hong Kong	19	17	23	28	33	62	110	66	104	83
48	India	7	7	9	10	11	37	39	60	51	53
49	Indonesia	60	137	137	133	146	92	143	158	166	196
50	Israel	50	29	23	28	26	44	54	42	53	48
51	Japan	348	295	307	290	275	1,230	1,130	1,161	1,169	1,008
52	Korea	75	69	53	62	83	201	263	105	127	143
53	Philippines	25	14	18	18	28	97	96	106	114	93
54	Thailand	10	18	18	11	23	24	22	20	19	22
55	Other Asia	536	1,031	995	1,038	1,263	384	549	640	691	625
56	*Africa*	*193*	*395*	*508*	*532*	*437*	*374*	*414*	*351*	*391*	*422*
57	Egypt	3	37	30	22	25	15	22	22	28	36
58	Morocco	14	8	7	32	42	7	10	10	12	9
59	South Africa	43	100	113	88	65	101	93	78	86	79
60	Zaire	18	6	7	12	24	24	28	28	30	33
61	Other Africa	115	245	351	377	281	227	261	213	235	267
62	*Other countries*	*86*	*73*	*65*	*43*	*67*	*165*	*141*	*133*	*157*	*180*
63	Australia	56	55	47	32	50	116	102	97	101	113
64	All other	30	17	18	12	18	49	39	36	56	67
65	**Nonmonetary international and regional organizations**	**158**	**276**	**219**	**246**	**186**	*	**1**	**1**	**1**	**1**

[1] Includes Surinam until 1976.

NOTE.—Reported by exporters, importers, and industrial and commercial concerns and other nonbanking institutions in the United States. Data exclude claims held through U.S. banks and intercompany accounts between U.S. companies and their affiliates.

3.27 SHORT-TERM CLAIMS ON FOREIGNERS Reported by Large Nonbanking Concerns in the United States

Millions of dollars; end of period

Type and country	1973	1974	1975	1976 May r	June r	July r	Aug. r	Sept.	Oct. p	Nov. p
1 **Total**	**3,164**	**3,357**	**3,791**	**5,204**	**4,949**	**5,185**	**5,142**	**4,750**	**4,869**	**5,133**
By type:										
2 *Payable in dollars*	*2,625*	*2,660*	*3,035*	*4,516*	*4,315*	*4,552*	*4,538*	*4,075*	*4,284*	*4,597*
3 Deposits	2,588	2,591	2,703	4,090	3,970	4,192	4,119	3,705	3,893	4,210
4 Short-term investments [1]	37	69	332	426	345	360	419	370	391	387
5 *Payable in foreign currencies*	*540*	*697*	*756*	*689*	*632*	*634*	*604*	*675*	*586*	*535*
6 Deposits	435	429	510	452	432	431	377	447	344	308
7 Short-term investments [1]	105	268	246	237	200	203	227	228	242	227
By country:										
8 United Kingdom	1,118	1,350	1,304	1,915	1,915	2,068	2,082	1,712	1,641	1,691
9 Canada	765	967	1,153	1,521	1,276	1,415	1,397	1,356	1,400	1,563
10 Bahamas	589	390	546	1,035	1,029	918	823	810	1,059	1,059
11 Japan	306	398	343	245	190	139	137	146	116	135
12 All other	386	252	445	488	539	645	703	726	653	685

[1] Negotiable and other readily transferable foreign obligations payable on demand or having a contractual maturity of not more than 1 year from the date on which the obligation was incurred by the foreigner.

NOTE.—Data represent the assets abroad of large nonbanking concerns in the United States. They are a portion of the total claims on foreigners reported by nonbanking concerns in the United States and are included in the figures shown in Table 3.26.

3.28 LONG-TERM LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Nonbanking Concerns in the United States

Millions of dollars; end of period

Area and country	1974 Dec.	1975 Dec.	1976 Mar.	1976 June p	1976 Sept. p	1974 Dec.	1975 Dec.	1976 Mar.	1976 June p	1976 Sept. p
	Liabilities to foreigners					Claims on foreigners				
1 **Total**	**3,889**	**4,277**	**4,092**	**3,960**	**3,705**	**4,544**	**4,959**	**5,152**	**5,008**	**4,958**
2 Europe	3,033	3,280	3,128	3,007	2,790	1,007	1,002	949	959	925
3 Germany	474	506	446	425	406	23	41	38	39	77
4 Netherlands	218	202	214	214	270	280	217	219	211	211
5 Switzerland	572	505	466	448	308	44	55	52	52	50
6 United Kingdom	1,256	1,629	1,601	1,520	1,441	364	396	349	365	290
7 Canada	110	164	153	175	121	1,290	1,426	1,473	1,516	1,510
8 Latin America	216	269	248	222	230	1,384	1,633	1,770	1,602	1,547
9 Bahamas	177	210	184	157	132	19	8	7	37	37
10 Brazil	3	4	5	5	5	187	171	182	164	171
11 Chile	1	1	1	1	1	435	315	312	306	244
12 Mexico	3	3	6	6	7	153	216	209	187	219
13 Asia	460	496	496	489	498	681	669	685	709	736
14 Japan	367	397	394	388	402	112	90	91	85	80
15 Africa	6	2	2	2	2	127	168	214	163	181
16 All other [1]	65	66	65	64	64	54	60	62	59	58

[1] Includes nonmonetary international and regional organizations.

3.29 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Per cent per annum

Country	Rate as of Feb. 28, 1977		Country	Rate as of Feb. 28, 1977		Country	Rate as of Feb. 28, 1977	
	Per cent	Month effective		Per cent	Month effective		Per cent	Month effective
Argentina	18.0	Feb. 1972	France	10.5	Sept. 1976	Norway	6.0	Sept. 1976
Austria	4.0	June 1976	Germany, Fed. Rep. of	3.5	Sept. 1975	Sweden	8.0	Oct. 1976
Belgium	7.0	Feb. 1977	Italy	15.0	Oct. 1976	Switzerland	2.0	June 1976
Brazil	28.0	May 1976	Japan	6.5	Oct. 1975	United Kingdom	12.0	Feb. 1977
Canada	8.0	Feb. 1977	Mexico	4.5	June 1942	Venezuela	5.0	Oct. 1970
Denmark	10.0	Dec. 1976	Netherlands	5.0	Jan. 1977			

NOTE.—Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper and/or government securities for commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

3.30 FOREIGN SHORT-TERM INTEREST RATES

Per cent per annum; averages of daily figures

Country, or type	1974	1975	1976	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.
1 Euro-dollars	11.01	7.02	5.58	5.53	5.46	5.29	5.01	5.14	5.08
2 United Kingdom	13.34	10.63	11.35	12.11	14.57	14.75	14.27	13.53	11.56
3 Canada	10.47	8.00	9.39	9.40	9.34	9.08	8.51	8.24	7.78
4 Germany	9.80	4.87	4.19	4.57	4.76	4.61	4.82	4.70	4.64
5 Switzerland		3.01	1.45	1.40	1.80	2.12	1.98	1.24	1.68
6 Netherlands		5.17	7.02	12.67	10.23	8.22	6.51	6.18	6.04
7 France		7.91	8.65	9.53	10.39	10.41	10.55	10.02	9.81
8 Italy		10.37	16.32	16.83	18.61	17.76	17.13	15.68	15.86
9 Belgium		6.63	10.25	13.90	13.94	12.48	10.73	8.49	7.59
10 Japan		11.64	7.70	7.50	7.50	8.00	8.00	7.50	7.50

NOTE.—Rates are for 3-month interbank loans except for—Canada, finance company paper; Belgium, time deposits of 20 million francs and over; and Japan, loans and discounts that can be called after being held over a minimum of two month-ends.

3.31 FOREIGN EXCHANGE RATES

Cents per unit of foreign currency

Country/currency	1974	1975	1976	1976 Sept.	1976 Oct.	1976 Nov.	1976 Dec.	1977 Jan.	1977 Feb.
1 Australia/dollar	143.89	130.77	122.15	124.25	123.40	120.66	105.29	108.53	109.04
2 Austria/shilling	5.3564	5.7467	5.5744	5.6567	5.7960	5.8332	5.9061	5.8852	5.8453
3 Belgium/franc	2.5713	2.7253	2.5921	2.6046	2.6822	2.7047	2.7483	2.7249	2.7114
4 Canada/dollar	102.26	98.30	101.41	102.56	102.81	101.46	98.204	98.985	97.295
5 Denmark/krone	16.442	17.437	16.546	16.694	16.968	16.934	17.145	16.967	16.891
6 Finland/markka	26.565	27.285	25.938	25.781	25.938	26.073	26.315	26.313	26.169
7 France/franc	20.805	23.354	20.942	20.334	20.072	20.042	20.055	20.108	20.083
8 Germany/deutsche mark	38.723	40.729	39.737	40.169	41.165	41.443	41.965	41.792	41.582
9 India/rupee	12.460	11.926	11.148	11.036	11.243	11.155	11.296	11.231	11.285
10 Ireland/pound	234.03	222.16	180.48	172.72	163.77	163.81	167.84	171.24	171.03
11 Italy/lira	.15372	.15328	.12044	.11837	.11684	.11554	.11521	.11372	.11327
12 Japan/yen	.34302	.33705	.33741	.34800	.34344	.33879	.33933	.34359	.35087
13 Malaysia/ringgit	41.682	41.753	39.340	39.753	39.575	39.513	39.550	39.718	40.011
14 Mexico/peso	8.0000	8.0000	6.9161	5.0286	4.8535	4.0200	4.8626	4.8114	4.4084
15 Netherlands/guilder	37.267	39.632	37.846	38.390	39.265	39.678	40.240	39.953	39.813
16 New Zealand/dollar	140.02	121.16	99.115	98.869	98.484	95.392	92.179	94.839	95.192
17 Norway/krone	18.119	19.180	18.327	18.427	18.812	18.954	19.193	18.946	18.904
18 Portugal/escudo	3.9506	3.9286	3.3159	3.2062	3.1920	3.1742	3.1674	3.1276	3.0717
19 South Africa/rand	146.98	136.47	114.85	114.77	114.85	114.88	114.95	114.94	115.00
20 Spain/peseta	1.7337	1.7424	1.4958	1.4721	1.4675	1.4626	1.4634	1.4577	1.4475
21 Sri Lanka/rupee	14.978	14.385	11.908	11.516	11.453	11.479	11.246	11.421	11.442
22 Sweden/krona	22.563	24.141	22.957	22.998	23.511	23.699	24.051	23.734	23.543
23 Switzerland/franc	33.688	38.743	40.013	40.431	40.876	40.958	40.823	40.127	39.669
24 United Kingdom/pound	234.03	222.16	180.48	172.72	163.77	163.81	167.84	171.24	171.03
MEMO:									
25 United States/dollar [1]	84.11	82.20	89.68	90.25	90.88	91.06	90.55	90.35	90.55

[1] Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. May 1970 parities = 100. Weights are 1972 global trade of each of the 10 countries.

NOTE.—Averages of certified noon buying rates in New York for cable transfers.

4.10 SALES, REVENUE, PROFITS, AND DIVIDENDS OF LARGE MANUFACTURING CORPORATIONS

(In millions of dollars)

Industry	1974	1975	1974 Q2	1974 Q3	1974 Q4	1975 Q1	1975 Q2	1975 Q3	1975 Q4	1976 Q1 r	1976 Q2 r	1976 Q3
Total (170 corps)												
Sales	564,862	586,948	143,108	145,089	149,806	138,392	145,898	148,008	154,650	159,311	166,452	161,596
Total revenue	573,275	595,337	145,259	147,286	151,971	140,482	147,811	149,841	157,203	161,461	168,958	164,631
Profits before taxes	67,858	60,356	18,239	17,902	15,096	12,925	14,875	15,507	17,049	17,502	18,902	16,904
Profits after taxes	32,591	27,040	9,302	8,449	7,089	5,566	6,715	7,102	7,657	8,613	9,539	8,442
Memo: PAT unadj.[1]	32,780	27,810	9,233	8,518	7,390	5,682	6,603	7,054	8,471	8,636	9,490	8,550
Dividends	12,434	12,458	2,932	3,077	3,512	3,132	3,036	3,076	3,214	3,191	3,456	3,546
Nondurable goods industries (86 crops.):[2]												
Sales	309,033	323,136	77,193	80,543	82,515	77,297	78,656	82,361	84,822	86,927	87,404	88,678
Total revenue	314,584	328,502	78,654	82,021	83,843	78,616	79,940	83,595	86,351	88,179	88,864	90,967
Profits before taxes	46,446	40,905	11,998	12,618	9,943	9,378	9,989	10,924	10,614	10,674	10,595	10,642
Profits after taxes	20,568	16,303	5,740	5,473	4,300	3,586	3,919	4,441	4,357	4,809	4,833	4,871
Memo: PAT unadj.[1]	20,465	16,719	5,689	5,398	4,420	3,572	3,900	4,439	4,808	4,829	4,809	4,962
Dividends	6,873	7,228	1,645	1,720	1,882	1,815	1,784	1,803	1,826	1,879	1,950	2,032
Durable goods industries (84 crops.):[3]												
Sales	255,829	263,812	65,915	64,546	67,291	61,095	67,242	65,647	69,828	72,384	79,048	72,918
Total revenue	258,691	266,835	66,605	65,265	68,128	61,866	67,871	66,246	70,852	73,282	80,094	73,664
Profits before taxes	21,412	19,451	6,241	5,284	5,153	3,547	4,886	4,583	6,435	6,828	8,307	6,262
Profits after taxes	12,023	10,737	3,562	2,976	2,789	1,980	2,796	2,661	3,300	3,804	4,706	3,571
Memo: PAT unadj.[1]	12,315	11,091	3,544	3,120	2,970	2,110	2,703	2,615	3,663	3,807	4,681	3,588
Dividends	5,561	5,230	1,287	1,357	1,630	1,317	1,252	1,273	1,388	1,308	1,502	1,514
Selected industries:												
Food and kindred products (28 crops.):												
Sales	52,753	57,149	12,729	13,663	14,476	13,490	14,117	14,600	14,942	14,762	15,057	16,048
Total revenue	53,728	58,156	12,996	13,939	14,683	13,708	14,356	14,844	15,248	14,993	15,395	16,221
Profits before taxes	4,602	5,025	1,190	1,289	1,077	1,066	1,190	1,385	1,384	1,471	1,507	1,462
Profits after taxes	2,298	2,496	607	645	517	502	607	719	668	665	778	817
Memo: PAT unadj.[1]	2,329	2,601	610	646	540	526	615	745	715	667	785	827
Dividends	1,011	1,100	248	253	267	268	271	274	287	307	325	309
Chemical and allied products (22 crops.):												
Sales	55,083	57,735	13,892	14,606	14,078	13,618	14,329	14,660	15,128	15,756	16,081	15,878
Total revenue	55,676	58,376	14,066	14,778	14,165	13,756	14,503	14,791	15,326	15,899	16,242	16,084
Profits before taxes	8,263	7,082	2,293	2,194	1,920	1,647	1,622	1,858	1,955	2,179	2,117	2,008
Profits after taxes	4,876	3,889	1,247	1,223	1,362	932	929	1,035	993	1,244	1,208	1,130
Memo: PAT unadj.[1]	4,745	4,015	1,245	1,180	1,289	927	937	1,028	1,123	1,225	1,153	1,163
Dividends	1,647	1,723	405	422	437	430	425	429	439	444	448	484
Petroleum refining (15 corps):												
Sales	165,150	172,645	41,362	42,747	44,938	41,988	41,342	43,873	45,442	46,656	46,065	46,923
Total revenue	168,680	175,915	42,261	43,659	45,847	42,851	42,100	44,633	46,331	47,407	46,888	48,744
Profits before taxes	30,657	26,305	7,564	8,339	6,458	6,227	6,612	6,961	6,505	6,254	6,210	6,569
Profits after taxes	11,775	8,551	3,349	3,181	2,147	1,905	2,078	2,300	2,268	2,481	2,383	2,606
Memo: PAT unadj.[1]	11,746	8,712	3,304	3,132	2,299	1,871	2,040	2,268	2,533	2,512	2,404	2,635
Dividends	3,635	3,801	853	899	1,019	966	937	949	949	971	1,017	1,075
Primary metals and products (23 crops.):												
Sales	54,044	48,578	13,976	14,285	13,895	12,482	12,393	12,274	11,429	12,733	14,441	13,751
Total revenue	55,048	49,534	14,171	14,504	14,328	12,782	12,604	12,479	11,669	12,904	14,650	13,958
Profits before taxes	5,579	2,921	1,586	1,791	1,229	1,015	711	487	708	633	924	701
Profits after taxes	3,199	1,822	927	1,028	655	633	478	396	315	409	603	513
Memo: PAT unadj.[1]	3,485	2,003	942	1,137	799	639	485	381	498	416	610	521
Dividends	965	945	209	238	297	273	227	216	229	218	227	230
Machinery (27 crops.):												
Sales	74,032	79,049	18,867	18,888	19,400	18,315	19,907	19,786	21,041	20,455	21,627	21,133
Total revenue	74,864	80,000	19,055	19,110	19,639	18,535	20,130	19,977	21,358	20,707	22,072	21,280
Profits before taxes	7,782	8,735	2,095	1,985	1,848	1,757	2,105	2,233	2,640	2,469	2,781	2,700
Profits after taxes	4,270	4,837	1,159	1,095	998	986	1,186	1,232	1,433	1,355	1,528	1,461
Memo: PAT unadj.[1]	4,209	4,899	1,148	1,117	936	990	1,180	1,239	1,490	1,354	1,517	1,467
Dividends	1,970	2,031	445	480	603	487	489	523	532	537	581	602
Motor vehicles and equipment (9 crops.):												
Sales	80,386	85,863	20,979	19,443	21,497	18,866	22,275	21,005	23,717	26,395	28,710	24,250
Total revenue	80,881	86,475	21,146	19,593	21,545	19,011	22,341	21,083	24,040	26,702	28,942	24,500
Profits before taxes	2,920	3,077	1,115	231	938	-98	854	590	1,731	2,494	3,056	1,272
Profits after taxes	1,686	1,471	657	113	527	-127	451	328	819	1,331	1,668	705
Memo: PAT unadj.[1]	1,742	1,604	648	147	586	-12	455	280	881	1,337	1,658	704
Dividends	1,537	1,121	382	386	385	294	276	274	277	285	422	372

1 Profits after taxes unadjusted are as reported by the individual companies. These data are not adjusted to eliminate differences in accounting treatments of special charges, credits, and other nonoperating items.

2 Includes 21 corporations in groups not shown separately.

3 Includes 25 corporations in groups not shown separately.

NOTE.—Data are obtained from published reports of companies and reports made to the Securities and Exchange Commission. Sales are net of returns, allowances, and discounts, and exclude excise taxes paid directly by the company. Total revenue data include, in addition to sales, income from nonmanufacturing operations and nonoperating income. Profits are before dividend payments and have been adjusted to exclude special charges and credits to surplus reserves and extraordinary items not related primarily to the current reporting period. Income taxes (not shown) include Federal, State and local government, and foreign.

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The Federal Reserve System

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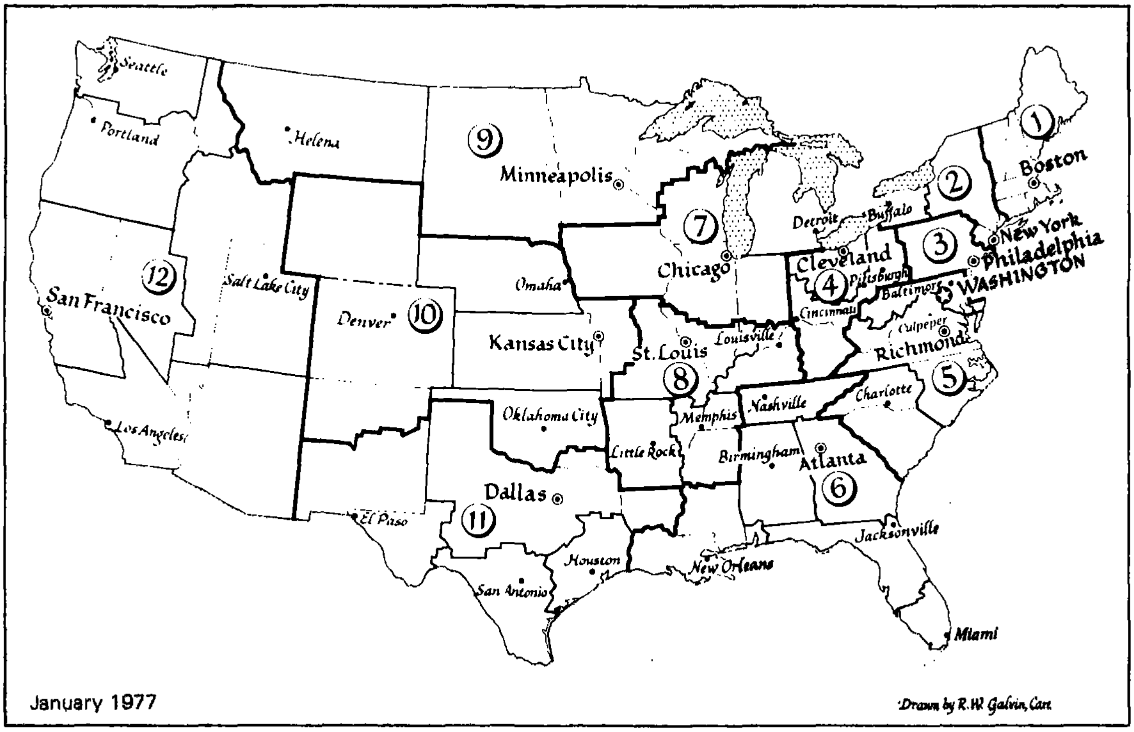

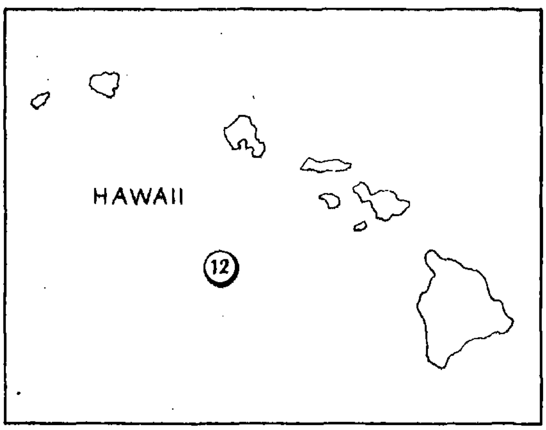

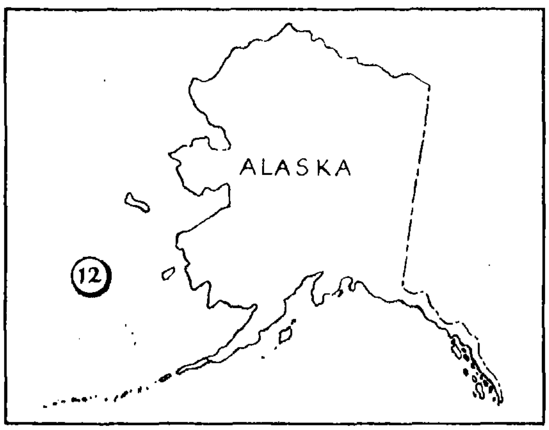

LEGEND

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facility

Guide to Tabular Presentation and Statistical Releases

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

p	Preliminary
r	Revised
rp	Revised preliminary
e	Estimated
c	*Corrected*
n.e.c.	Not elsewhere classified
Rp's	Repurchase agreements
IPC's	*Individuals, partnerships, and corporations*
SMSA's	Standard metropolitan statistical areas
REIT's	Real estate investment trusts
*	Amounts insignificant in terms of the particular unit (e.g., less than 500,000 when *the unit is millions*)
......	(1) Zero, (2) no figure to be expected, or (3) figure delayed or, (4) no change (when figures are expected in percentages).

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Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

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In some of the tables details do not add to totals because of rounding.

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