The original documents are located in Box 10, folder "Council of Economic Advisers Memoranda to the President (2)" of the Robert T. Hartmann Files at the Gerald R. Ford Presidential Library.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20506

October 1, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Manufacturers' Orders, Shipments and Inventories in August

A. Summary

New orders received by manufacturers -- an advance indicator of manufacturing activity -- rose 3.4 percent in August or approximately as much as the wholesale prices of manufactured goods rose. Shipments rose by 2.0 percent. Orders were greater than shipments so that unfilled order backlogs increased -- for the 35th month in a row.

Manufacturers added $2.6 billion to their inventories in August as compared to $3.2 billion in July. Although these are very large figures, the increases seem to be mainly higher prices rather than increased physical volume.

B. Additional Detail

After allowing for inflation, orders for durable goods have not changed much since the second quarter and in July and August were running about 4 percent below year-earlier levels. Manufacturers are being very careful about inventories because the supply situation seems to be easing in many industries where shortages used to be common. This may have the effect of lowering production in the period ahead.

These figures are for release October 2 at 2:00 p.m.

William Fellner
William J. Fellner
Member

Alan Greenspan
Chairman

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 4, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions

Summary

The reduction in the growth rates of M_1 and M_2 needed for getting an inflationary process under control have historically preceded and in part accompanied pronounced economic slowdowns and/or recessions. There is a time lag between changes in the rate of money growth and the acceleration or deceleration of spending. The M_1 and M_2 growth rates for the past 52 weeks reflect the gradual application of restraint as compared to the preceding period. The 52 weeks money growth is consistent with a policy attempting to reduce the inflation rate gradually, in line with the conception that the growth of the money supply would subsequently have to be lowered further to achieve a further lowering of the inflation rate. So far hardly any reduction of the rate of price increase has as yet taken place; and the more recent (shorter period) money growth rates are significantly smaller than those applying to the past 52 weeks.

Short term interest rates continued to fall this week. The 3-month Treasury Bill rate is now more than two percentage points below its August average. Lower yields on bills and other short term assets should be helpful to the thrift institutions that had suffered sizable outflows of funds. Long term interest rates have remained approximately unchanged.

William Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Some Details

(Optional Reading)

(1) Money Growth. The following figures give numerical content to the statements in the Summary concerning the growth of the money supply.

Percent Changes of Monetary Aggregates, Seasonally Adjusted Annual Rates

Period	M_1 (currency plus demand deposits)	M_2 (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
From average of four weeks ending Sept. 26, 1973 to average of four weeks ending Sept. 25, 1974 (52 week span)	5.7	8.3	10.1
From average of four weeks ending March 27 to average of four weeks ending Sept. 25, 1974 (26 week span)	3.9	6.1	14.5
From average of four weeks ending June 26 to average of four weeks ending September 25, 1974 (13 week span)	1.3	4.6	7.0

Interest Rates
(average of daily figures)

DATE \ RATE	U.S. Government 3-month Bills	U.S. Government 3-5 year issues	U.S. Government long term bonds	Prime Commercial Paper 4-6 months	Moody's Aa Bond Rat
August	8.74	8.64	7.33	11.65	9.00
Sept.	8.36	8.38	7.30	11.23	9.24
week ending Oct. 5	6.39	8.14	7.31	10.22	9.36

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 4, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

The activities in the international financial markets this week reflected a deepening of world-wide concern over the tensions in the international banking system. These tensions are accentuated by the financial aspects of the energy crisis. Economic and political problems in Italy added to the atmosphere of disquietude by the end of the week.

Against this background, and reflecting also the easing of short-term interest rates in the U. S., the value of the dollar declined marginally this week.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

Supplementary Elaboration of This Week's International Financial Developments

The Swiss franc and the Dutch guilder, two currencies that traditionally serve as "haven" for funds during periods of monetary disorders, came into a heavy demand during the latter part of the week, causing their exchange rates to rise sharply against the dollar. The demand for French francs also picked up, but the French monetary authorities, conerned with preserving for France the existing competitive advantage in international trade, purchased $134 million in the foreign exchange markets to prevent the demand for causing the exchange rate of the "floating" franc to appreciate relative to the dollar

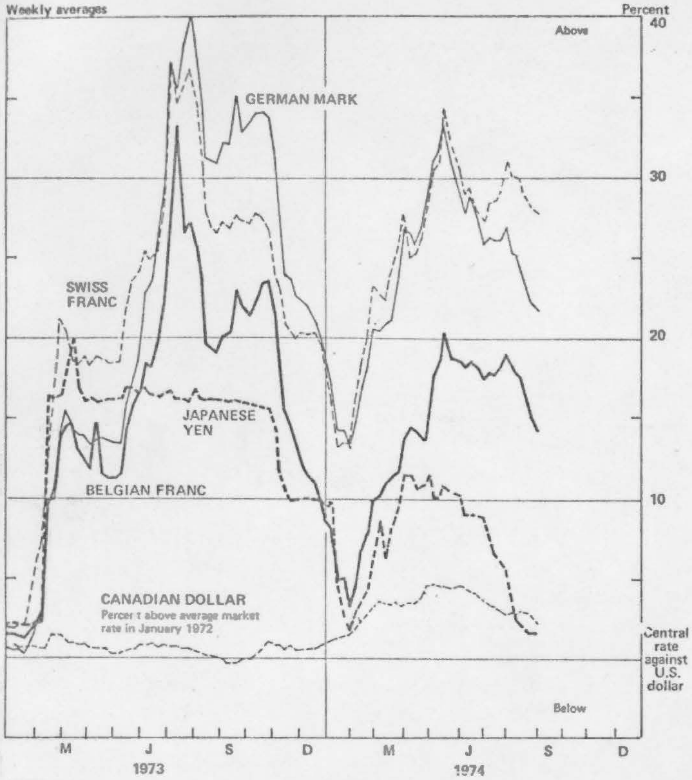
Further adding to the atmosphere of nervousness in a way that cannot be as yet fully assessed at this time, was the collapse today of an Italian bank, Banka Privata Italiana, that reportedly will result in huge foreign exchange losses to many international banks. The bank, together with the troubled Franklin National in the United States and the recently closed German bank, has been a part of the "financial empire" of the Italian financier Mr. Sindona. Only two weeks ago, rescue efforts for the now-defunct Banka Privata by the Italian monetary authorities raised outcries of a "major financial scandal" involving the central bank itself; it is not clear at this time whether the collapse of the Italian government today was tied in any way to this "scandal" and the ultimate collapse of the bank. In any case, however, given the already deep gloom about the state of international banking (see our report of two weeks ago), and the large Italian international indebtedness, this development may be expected to have severely depressing effect on the international financial atmosphere next week as markets reopen on Monday.

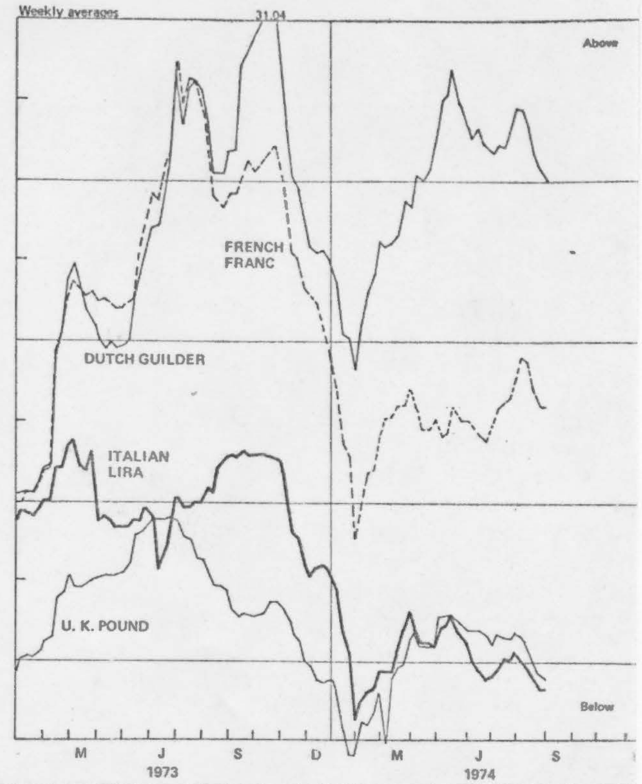
Reflecting the growing nervousness in the international financial markets, the price of gold rose sharply this week by more than $13 to $159.00 per ounce.

Date: October 4, 1974

CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR

(Weekly averages of daily offered rates in the U. S. market as percent above or below central rates as established by Smithsonian agreement, December 1971)



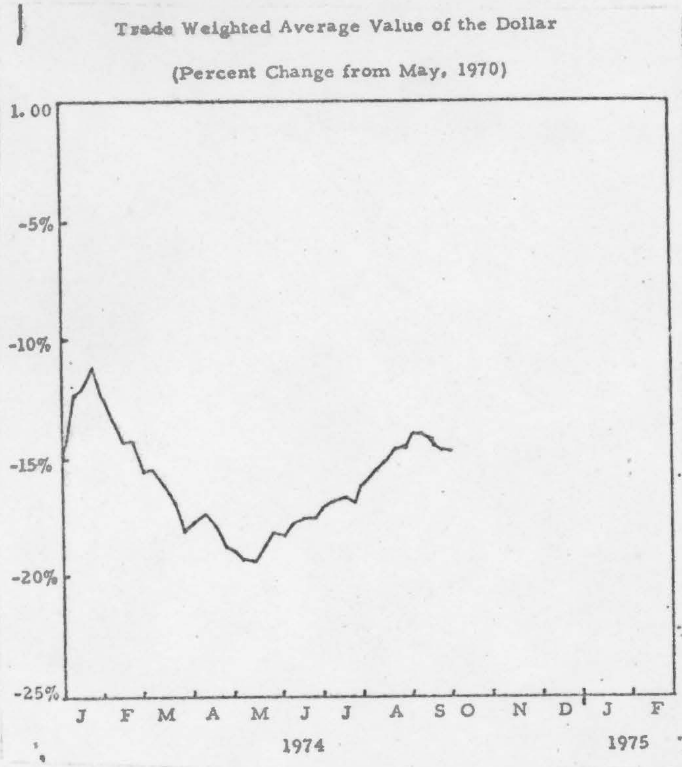


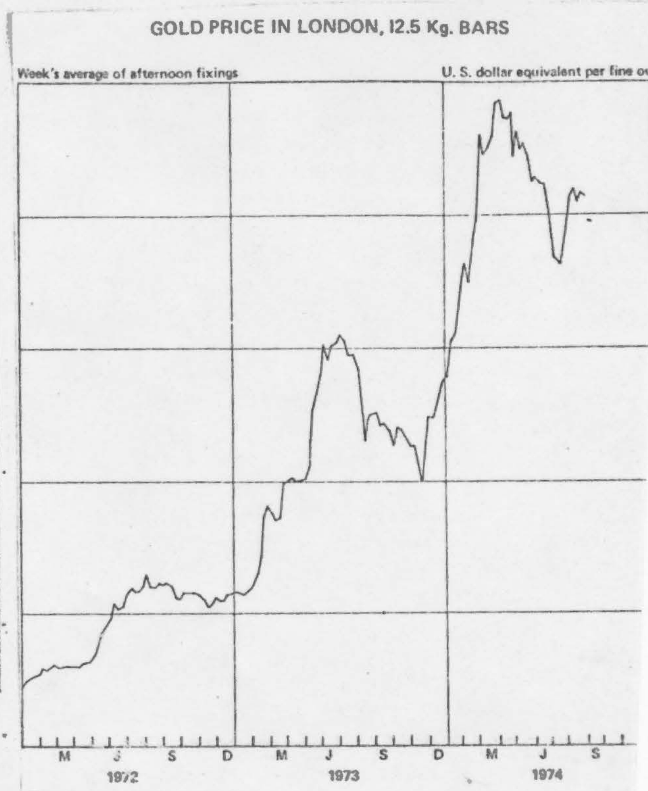
CURRENCY	UNITS PER U.S. $ / U.S. ¢ PER UNIT		% CHANGE IN FOREIGN CURR FROM SMITHSONIAN		
	SMITHSONIAN	TODAY	TODAY	WEEK AGO	MONTH AGO
Canadian Dollar	1.000 / ¢100.000	.9843 / ¢101.60	1.6	1.5	1.3
British Pound	.384 / ¢260.571	.4299 / ¢232.60	-10.7	-10.6	-11.3
German Mark*	3.222 / ¢ 31.032	2.6212 / ¢ 38.15	22.9	21.3	20.9
Swiss Franc	3.840 / ¢ 26.042	2.9274 / ¢ 34.16	31.2	29.4	27.7
French Franc	5.116 / ¢ 19.548	4.7529 / ¢ 21.04	7.6	7.6	6.4
Dutch Guilder*	3.245 / ¢ 30.819	2.6774 / ¢ 37.35	21.2	19.8	19.8
Belgian Franc*	44.816 / ¢ 2.231	38.7600 / ¢ 2.5800	15.6	14.2	13.7
Italian Lira	581.500 / ¢ .172	663.5700 / ¢ .1507	-12.4	-12.0	-12.2
Japanese Yen	308.000 / ¢ .325	298.8643 / ¢ .3346	3.0	4.0	2.8

* Currencies floating together relative to the U.S. dollar.

Date: October 4, 1974

VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD





TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

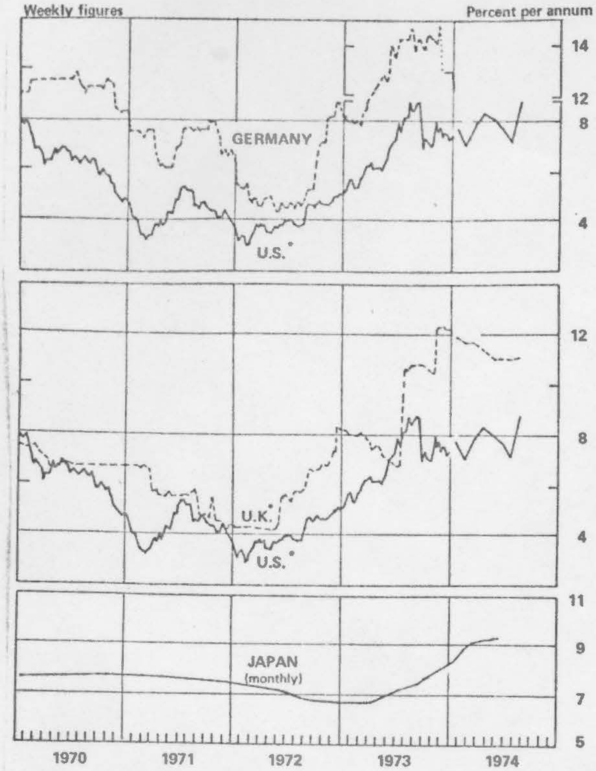
DATE	PERCENTAGE CHANGE IN VALUE FROM: May 1970*	Smithsonian
TODAY	-14.91	-4.27
WEEK AGO	-14.69	-4.05
MONTH AGO	-14.32	-3.90
6 MONTHS AGO	-17.85	-7.07
YEAR AGO	-19.82	-8.89

PRICE OF GOLD ON THE LONDC GOLD MARKET

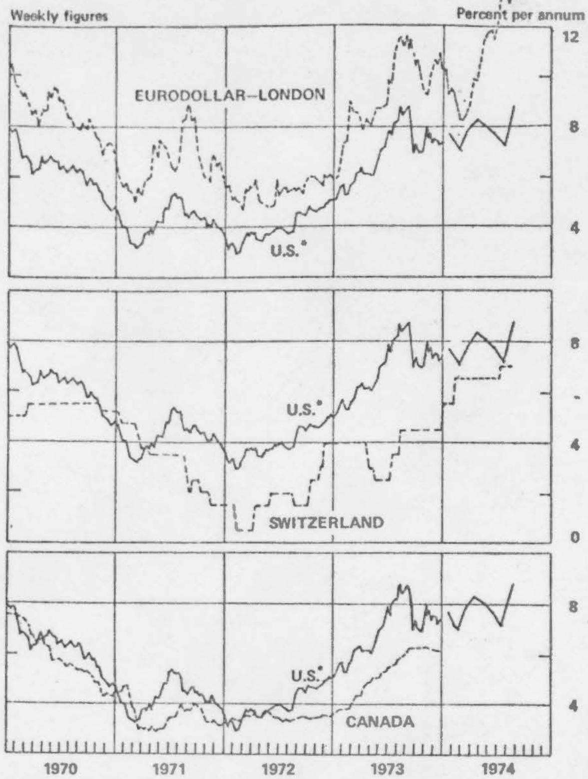
PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
159.00	354.3
145.75	316.4
156.90	348.3
176.25	403.6
99.00	182.9

* Last month in which fixed exchange rates were adhered to by all 14 countri (Canadian dollar floated June 1, 1970).

SHORT-TERM INTEREST RATES



U.S., 90-day Treasury bill rate; Germany, interbank loan rate; U.K., 90-day Treasury bill rate; Japan, average rate on bank loans and discounts.
*Monthly beginning January 1974.



U.S., 90-day Treasury bill rate; Eurodollars, three-month rate; Switzerland, three-month deposit rate; Canada, 90-day Treasury bill rate (adjusted to U.S. quotation).
*Monthly beginning January 1974.

Country	Type of Market Instrument	Market Rate	90 Days Forward Premium(+) Discount(-) (a. r.)	Net Covered Yield	Net Arbitrage Incentive
U.S.	90 Day CD's	10.60	---	10.60	
Eurodollars	90 Day Bank Deposit	11.938	---	11.938	
U.K.	Interbank Loan Rate	11.563	-3.07	8.49	-2.107
Canada	Finance Company Paper	11.375	+.37	11.745	1.145
Germany	Interbank Loan Rate	9.60	+2.36	11.96	1.36
Switzerland	Commercial Bank Prime Rate	8.00	+1.41	9.41	-1.19
France	Commercial Bank Prime Rate	14.40	-5.22	9.18	-1.42
Japan	Commercial Bank Prime Rate	9.25	-1.38	7.87	-2.73

* 60 days.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 4, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: August-to-September changes in Unemployment, Employment and Wages

The seasonally adjusted number of unemployed rose from 4.9 to 5.3 million. The unemployment rate which given the behavior of the real GNP over the past quarters had been lower than expected, now rose from 5.4 to 5.8 percent. There has been very little increase in the rate for adult males and in that for married males.

An interesting feature of the change is that from August to September the civilian labor force, consisting of the employed and of those looking for work but not having a job, rose by about 800,000. According to the household survey this increase in the labor force reflects itself in a roughly 350,000 increase in employment and a 450,000 increase in unemployment. The labor-force participation rate of teenagers jumped by more than 4 percentage points and this accounts for the bulk of the increase in the labor force.

The average length of the work week rose somewhat; and hourly earnings in the private nonfarm economy, adjusted for interindustry shifts and for overtime in manufacturing, rose by 0.9 percent. This is about the same as the average of the adjusted hourly wage increases during the past four months, and when "annualized" it corresponds to an increase of between 11 and 12 percent. This compares with 8.8 percent from September '7 to September '74.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Some Details

Most observers were looking for explanations why after several quarters of slow output-growth, followed by an interval of moderate decline, the unemployment rate had not for some time been more in the neighborhood of the September figure than at the earlier levels. In that sense the rise does not come as a surprise.

The unemployment rate for adult males rose from 3.8 to 3.9 percent, a "statistically insignificant" rise. However, in the fall of '73 this rate was in the neighborhood of 3 percent For households heads (including women) the August to September rise was from 3.1 to 3.4 percent; for married males from 2.6 to 2.8 percent; for teenagers from 15.3 to 16.7 percent. The nonwhi white differential has improved somewhat for nonwhites as compare to earlier typical differentials (now 9.8 percent for nonwhites and 5.3 percent for whites).

There occurred a small decline in the proportion of those unemployed who have been looking for a job for less than 5 weeks (a decline from about 51 to a shade below 50 percent), yet the average duration of unemployment declined slightly, to somewhat below 10 weeks. The average duration is likely to rise in the period ahead.

The increase in the average length of the work week, which was mentioned in the Summary, was from 36.6 to 36.8 hours in the private nonagricultural establishments.

As was pointed out in the Summary, the household survey suggests a 350,000 increase in employment from August to September. The data based on establishment sources in the privat nonagricultural sector point to a negligible increase (about 35,C with a noteworthy change (an about 1-1/2 percent decline) showinc only for construction among the major categories. The methods of collecting the household data are quite different from those of collecting the establishment data and there exist good reasons for not expecting the results to be identical.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 10, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Wholeslae Price Index for September

The Wholesale Price Index (WPI) rose only 0.1 percent in September (seasonally adjusted). Prices of farm products and processed foods and feeds fell by 1.9 percent. The Industrial Commodities component increased by 1.0 percent, its smallest monthly increase since October 1973. The September slowdown in the pace of advance of industrial prices -- to a rate somewhat less than half of their average monthly rise in the preceding ten months -- expresses widespread deceleration of price increases. While raw-material price increases will for a while show in the behavior of industrial wholesale prices, particularly for autos (WPI for October), the recent behavior of crude and intermediate price suggests a lessening of cost pressures from materials. To the extent that this may keep up, it will affect also the future behavior of the Consumer Price Index. Yet quite recently farm prices rose again; hence the favorable WPI statistics for September should not lead us to jump to conclusions in this regard.

The behavior of the WPI and major components over the past twelve months is shown in the attached table.

William Fellner
William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Material

Prices for eight of the thirteen major industrial commodity categories showed weakness as compared with August. Among industrial prices, those for crude and intermediate commodities rose less than the average, those for finished goods more than the average, reflecting the pass through of earlier crude and intermediate price increases.

While gasoline prices rose in the September WPI, the increase reflects price movement from July to August; gasoline prices are reported to have weakened in recent weeks. Prices of nonferrous metals declined in September and prices of iron and steel rose markedly less. Over the past year prices of metals and metal products have risen 39.2 percent and have accounted for a larger portion of the industrial price increase than fuels.

WPI and Major Components - Percent Changes and Contributions to Change

(Seasonally adjusted annual rates)

Three months ending	All Commodities	Farm products and processed foods and feeds	Industrial Commodities		
			Total	Fuels and related products and power	All other Industrials
Dec. 1973	8.7	-8.7	16.0	52.3	12.0
Mar. 1974	24.5	10.8	32.3	136.2	22.4
June 1974	12.2	-29.3	35.7	52.2	33.5
Sept.1974	35.2	59.2	28.3	31.6	27.7
Sept. '73 - Sept. '74	19.7	3.2	27.9	63.8	23.3
Percentage contribution to 12-month change	100	5	95	23	72

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 10, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: September Retail Sales

Summary

Retail sales declined more than 1 percent from August to September according to advance reports from the Census Bureau. Most lines of business weakened over the month. Considering that the reports relate to the value of sales, the sales picture looks still weaker when allowance is made for higher prices.

William Fellner

William J. Fellner
Member

A

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Material

Consumer spending in terms of physical volume has been very sluggish in the past two months as consumers have cut back expenditures on such things as clothing, furniture and appliances. Purchases of automobiles were strong in July and August when consumers attempted to buy the lower-prices 1974 models but auto sales fell in September with the introduction of the 1975 models. With unemployment rising and real incomes falling, spending is likely to remain rather weak in the near-term.

These figures were released at 2:30 p. m. today, October 10.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 11, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Business Sales and Inventories in August

Summary

Combined sales of manufacturers, wholesalers and retailers rose by 1.4 percent from July to August but higher prices more than accounted for the increase. Inventories of these firms rose by $3.8 billion in August following a rise of $5.0 billion in July. There is a good deal of uncertainty as to how much of these inventory increases represents physical volume and how much is merely inflation. We believe that businessmen are now pursuing cautious inventory policies because supplies of many basic materials that had been scarce are now fairly plentiful. This situation is just what is needed to curb inflation. At the same time such inventory policies will tend to have a dampening effect on production and employment in the months ahead.

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Material

Separate reports for manufacturing and retail sales in August were sent to you on September 11 and October 1.

These figures are for release Tuesday, October 15, at 9:30 a.m.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 14, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

In the early part of the week the widening differential between our softening short-term interest rates and the yield of the short-term credit instruments of some countries abroad contributed to a weakening of the dollar relative to various currencies, particularly the D-mark. The dollar regained some ground by the week's end, but still ended slightly below the level of last week in terms of its average value relative to 14 major currencies.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

Supplementary Analysis of this Week's
International Financial Developments

The trading in the foreign exchange markets this week continued to reflect an undertone of nervousness that has characterized the activities for the past several months. World-wide concern over the condition of major international banks, and increasing doubts about the capacity of the financial markets to effect "recycling" of petrodollars, have been the major causes of this nervousness. Such "recycling" means rechannelling from the markets to which the OPEC funds are flowing to countries that have a hard time financing their current-account deficits.

Some observers have been critical of the U. S. economic program because of what they consider a lack of initiative on our part in assuring the recycling of OPEC funds in the future. Yet it is difficult to draw a clear distinction between assured recycling of the sort envisaged by the critics and American guarantees to finance countries to which the OPEC is selling oil at high prices but which the OPEC countries are unwilling to finance. While the American position has certainly not been uncooperative in relation to the hard-hit countries, it would be a mistake to give assurances on a major scale that countries will be bailed out of the difficulties into which they get by trying to meet a highly inflated oil bill without making the necessary internal adjustments.

Early in the week the dollar exchange rate declined, particularly against the German mark, as a large volume of funds moved to Germany in what appeared to be an unwinding of currency positions that have been taken in speculative moves into the dollar over the past several months. Continued softening of interest rates in the United States and in the Eurodollar market also, no doubt, provided an added impetus for the shift of funds. (See Chart III for an approximation of the net incentive for the movement of funds to Germany. The sum of the German short-term rates and of the forward premium which investors can earn by selling D-mark in the forward market is appreciably in excess of comparable U. S. short rates).

To moderate the decline of the dollar rate, the Federal Reserve intervened in the market by supplying marks. It sold a total of $120 million's worth of marks, $94 of which were borrowed from the German Central Bank under the reciprocal stand-by line of credit that the Federal Reserve maintains with all major central banks. At the same time, the German Central Bank intervened in the foreign exchange market in Germany by purchasing dollars offered for sale there. The bank purchased a total of $200 million.

Sterling was also affected by what appeared to be a broadly based shift of funds into the German mark, and its rate declined parallel with the dollar relative to continental currencies early in the week. Political uncertainties focusing on the British election were mentioned as the precipitating cause. The pound rallied following the outcome of the election, but its rise was only moderate, being hampered by the announcement of adverse trade figures showing a deterioration in the deficit, from $794 million in August, to $882 million in September.

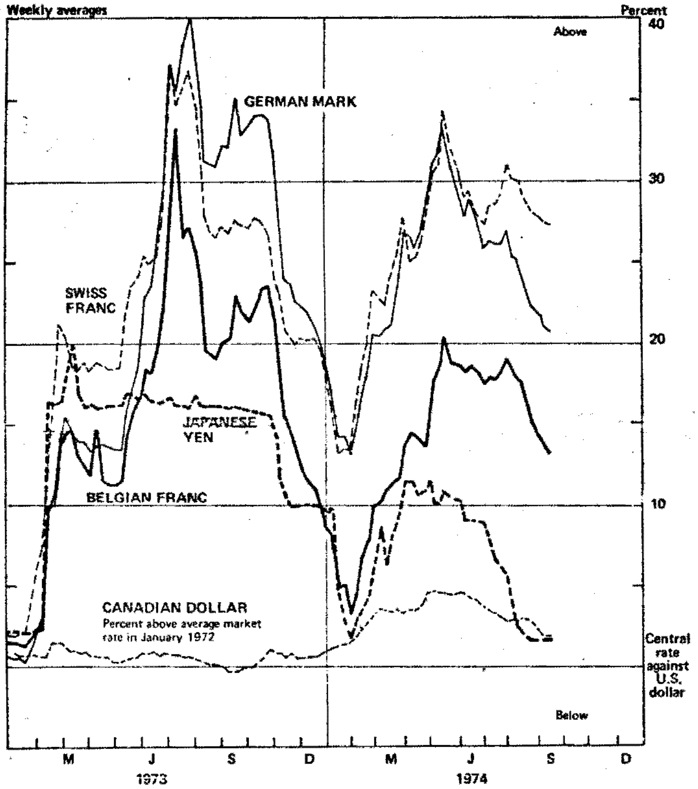
The lira weakened this week following the resignation of the Italian Government last week. The authorities spent $125 million to moderate the decline of the rate.

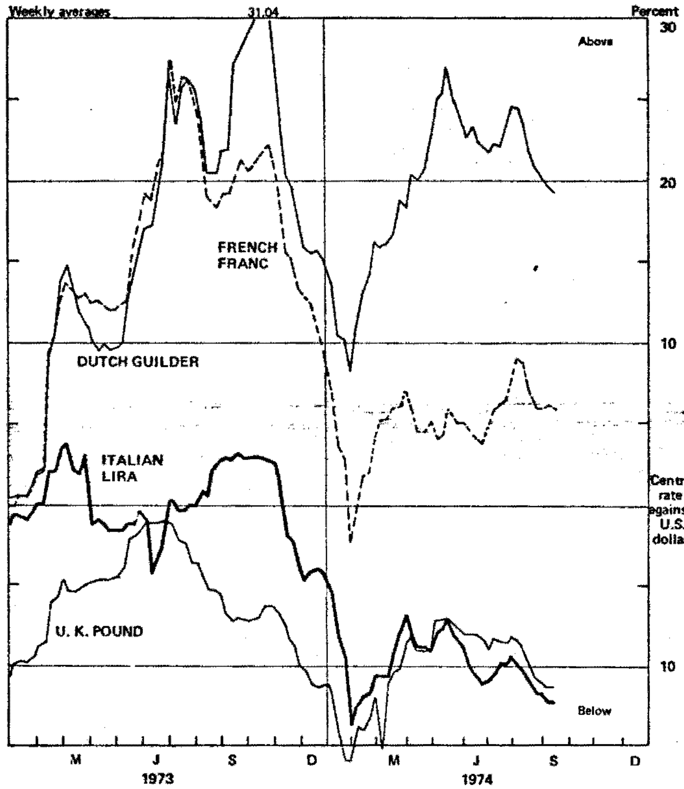
After a sharp gain last week, the price of gold on the London GOld market declined moderately this week.

CHART 1.   Date: October 11, 1974

CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR

(Weekly averages of daily offered rates in the U. S. market as percent above or below central rates as established by Smithsonian agreement, December 1971)





CURRENCY	UNITS PER U. S. $ / U. S. ¢ PER UNIT		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	SMITHSONIAN	TODAY	TODAY	WEEK AGO	MONTH AGO
Canadian Dollar	1.000 ¢100.000	.9819 ¢101.84	1.8	1.6	1.3
British Pound	.384 ¢260.571	.4284 ¢233.40	-10.3	-10.7	-11.3
German Mark*	3.222 ¢ 31.032	2.5974 ¢ 38.50	24.1	22.9	20.9
Swiss Franc	3.840 ¢ 26.042	2.9257 ¢ 34.18	31.2	31.2	27.7
French Franc	5.116 ¢ 19.548	4.7574 ¢ 21.02	7.5	7.6	6.4
Dutch Guilder*	3.245 ¢ 30.819	2.6738 ¢ 37.40	21.4	21.2	19.8
Belgian Franc*	44.816 ¢ 2.231	38.8651 ¢ 2.573	15.3	15.6	13.7
Italian Lira	581.500 ¢ .172	669.3440 ¢ .1494	-13.1	-12.4	-12.2
Japanese Yen	308.000 ¢ .325	298.7750 ¢ .3347	3.0	3.0	2.8

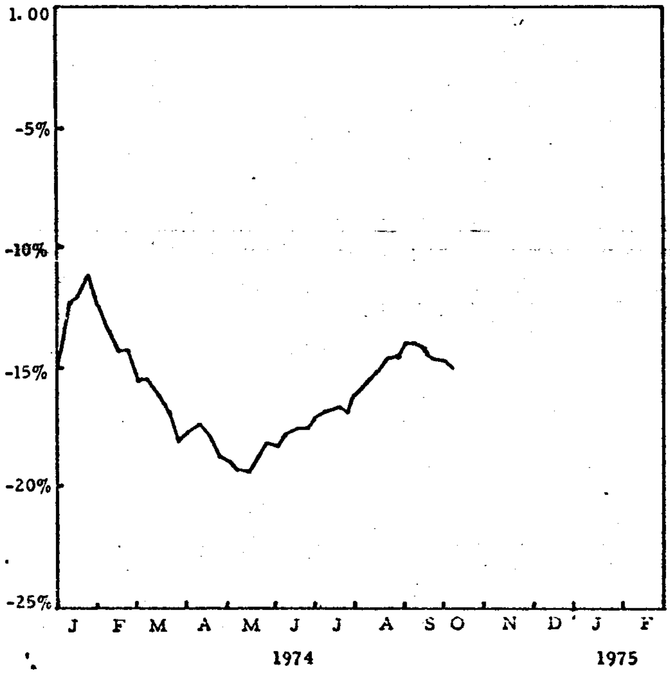
* Currencies floating together relative to the U.S. dollar.

CHART. II. Date: October 11, 1974

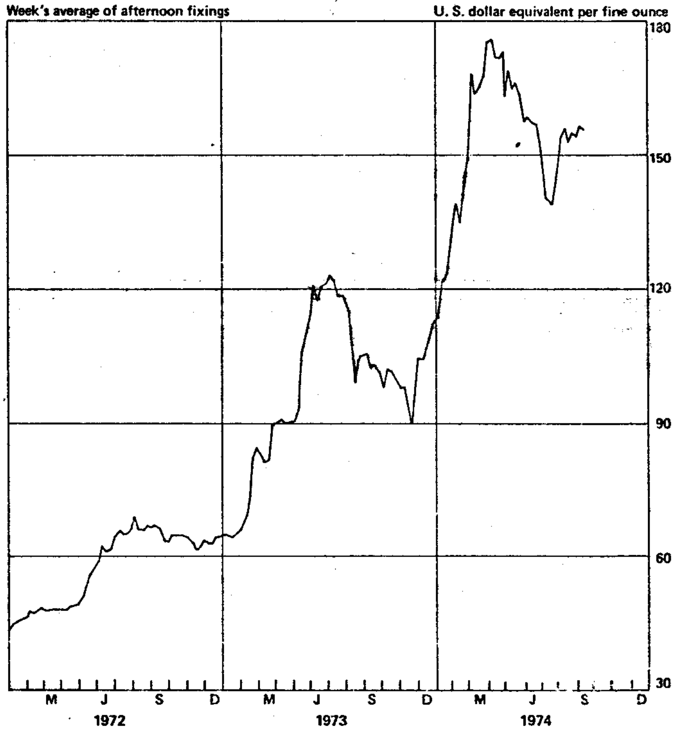
VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

Trade Weighted Average Value of the Dollar

(Percent Change from May, 1970)



GOLD PRICE IN LONDON, 12.5 Kg. BARS



TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May 1970*	Smithsonian
TODAY	-15.00	-4.36
WEEK AGO	-14.91	-4.27
MONTH AGO	-14.52	-3.90
6 MONTHS AGO	-17.62	-6.84
YEAR AGO	-20.21	-9.29

PRICE OF GOLD ON THE LONDON GOLD MARKET

PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
157.00	348.6
159.00	354.3
153.00	337.1
173.50	395.7
103.75	196.4

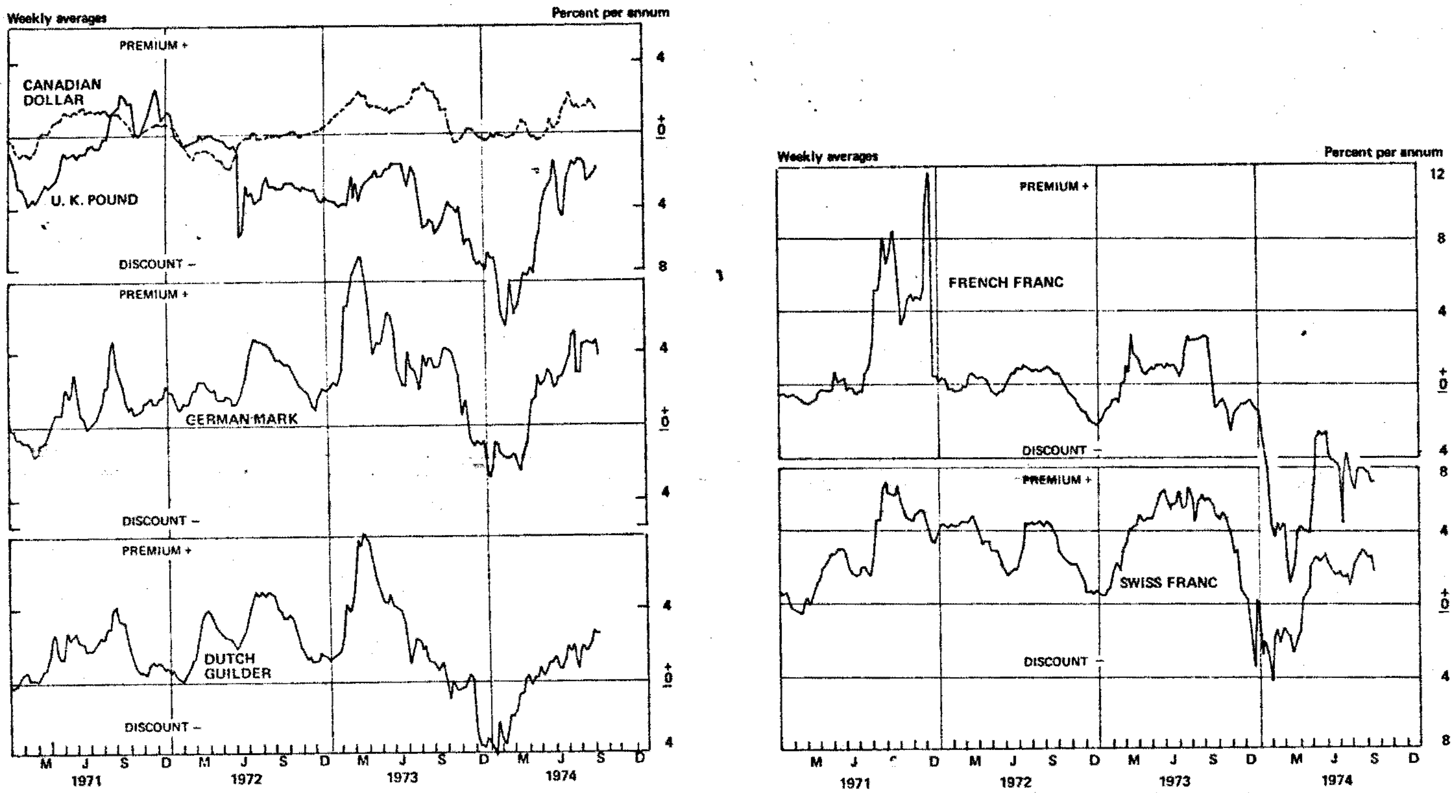
* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

CHART III.

FORWARD EXCHANGE RATES AGAINST THE DOLLAR

Date: October 11, 1974

(Weekly averages of daily quotations of three-month forward premiums or discounts in percent per annum)



Country	Type of Market Instrument	Market Rate	90 Days Forward Premium(+) Discount(-) (a. r.)	Net Covered Yield	Net Arbitrage Incentive:
U.S.	90 Day CD's	10.025	---	10.025	
Eurodollars	90 Day Bank Deposit	11.00	---	11.00	
U.K.	Interbank Loan Rate	11.875	-3.57	8.305	-1.72
Canada	Finance Company Paper	10.75	+.06	10.81	.785
Germany	Interbank Loan Rate	9.70	+1.48	11.18	1.155
Switzerland	Commercial Bank Prime Rate	8.00	+1.43	9.43	-.595
France	Commercial Bank Prime Rate	14.40	-4.94	9.46	-.565
Japan	Commercial Bank Prime Rate	9.90	-.87	9.03	-.995

* 60 days.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 14, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions

Summary

While it remains true to the present that the recent rates of increase in the narrowly defined money supply (M_1) and also in the broadly defined money supply (M_2) are appreciably smaller than the average rates of increase over the past 52 weeks, there are now several signs of an easing of pressures in financial markets (see optional reading).

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

(Optional Reading)

Several recent developments lend support to the notion that pressures on financial markets have been easing. One is that short-term interest rates are remaining well below their August highs. Partly as a result of these lower short rates on assets other than deposits in thrift institutions, these deposits have become less unattractive. From August to September the outflow of funds from these institutions was practically zero without seasonal adjustment (in contrast to an outflow of almost $1-1/2 billion in the preceding month), and with seasonal adjustment there was an inflow of almost $1 billion (in contrast to an exceedingly small inflow in the preceding month). Since thrift institutions specialize in mortgage lending a continuation of these inflows would provide some relief to the homebuilding industry. Another important signal is the decline in September of commercial bank borrowing from the Fed. Such borrowings averaged $3.49 billion in the four weeks ending September 11, 1974, and by October 9, they had fallen to $2.25 billion. This drop in borrowings strengthens the banking systems liquidity position.

Some Details

(Optional Reading)

(1) Money Growth. The following figures give numerical content to the statements in the Summary concerning the growth of the money supply.

Percent Changes of Monetary Aggregates, Seasonally Adjusted Annual Rates

Period	M_1 (currency plus demand deposits)	M_2 (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
From average of four weeks ending Oct. 3, 1973 to average of four weeks ending Oct. 2, 1974	5.6	8.2	10.0
From average of four weeks ending Apirl 3, 1974 to average of four weeks ending Oct. 2, 1974	4.0	6.2	13.5
From average of four weeks ending July 3, 1974 to average of four weeks ending Oct. 2, 1974	1.0	4.3	5.7

Interest Rates
(average of daily figures)

(percent)

Period	U. S. Government			Prime commercial paper 4-6 months	Moody's Aaa bond rate
	3-month bills	3-5 year issues	long term bonds		
August	8.74	8.64	7.33	11.65	9.00
September	8.36	8.38	7.30	11.23	9.24
Week ending October 5	6.70	7.98	7.27	9.81	9.39

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 15, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: September Industrial Production

Summary

Industrial production rose 0.3 percent in September following a decrease of 0.4 percent in August. In August, production was depressed by brief strikes, which were settled subsequently. Apart from the strikes there has been little change in industrial activity in the past 2 months on an overall basis. With some oscillations since the beginning of the year, the index is back at its January level (and at about the average 1973 level).

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

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Additional Detail

Industrial production peaked in the fourth calendar quarter of 1973, declined sharply in the first quarter because of the energy crisis, made a partial recovery in the second quarter and leveled off in the third quarter. This year's third quarter was 1.3 percent below last year's fourth.

Output of the electric and gas utilities has made a good recovery from last winter's slump. Mining has continued to edge down. Production of durable goods, after some recovery in the spring, has since fallen back a little. In this important sector output of appliances and building materials has been reduced because of weak demand, but strong demand has sustained production of capital goods and steel. Production of autos and parts was disappointing in the third quarter, little different from the second. Here, strikes have hampered output in recent months but most of these have just been settled. Consumer response to the new 1975 models with their higher price tags will govern the course of auto production over the next few months.

These figures are for release October 15 in the P.M.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 15, 1974

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

MEMORANDUM FOR THE PRESIDENT

Subject: Personal Income in September

Summary

Personal income -- a broad measure of income that includes wages, salaries, dividends, farm income, social security payments, etc. -- rose $8.8 billion in September or by 3/4 of 1 percent. Wage and salary payments rose by $5 billion, reflecting a slight rise in employment, an increase in the length of the workweek and a substantial increase in hourly wages.

Supplementary Material

The September personal income increase is about the same as the average monthly rise from August 1973 to August 1974. These are large "nominal" increases reflecting inflation. Indeed, while over that twelve-month period personal income rose 9.1 percent, consumer prices were up by 11.2 percent.

These figures are for release Wednesday, October 16 at 2:00 p.m.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 16, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: September Housing Starts

Seasonally adjusted housing starts changed little from August to September. The annual rate of private housing starts -- 1,120,000 units -- remained depressed and is unlikely to recover significantly before the end of the year. Because of the turnaround in financial markets in recent weeks and the improved prospect for savings inflows into the thrift institutions, the outlook is better for next year. Optional reading is attached.

These data are for release at 2:00 p. m. Thursday, October 17, 1974.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

Supplementary Material

If the decline in short-term interest rates holds up, inflows of funds into the thrift institutions should prove helpful to residential construction activity. However, the return of savings to the thrifts in the fourth quarter of 1974 will not raise starts until 1975 because the liquidity position of the thrift institutions is unusually low and the volume of Federal Home Loan Bank advances outstanding unusually high for the S&L's. Interest rates on mortgage loans actually made have continued to rise in September although commitment rates on mortgages to be issued in the future have begun to decline from well above 10 percent towards 10 percent.

All this suggests that the recovery in starts will not gather momentum until Spring. Though the new conventional Tandem program authorizing $3 billion of below-market interest rate mortgage commitments may help somewhat, the outlook remains bleak for the balance of this year. In fact, building permits issued in 14,000 permit-issuing places amounted to a mere 825,000 units in September. They have not been this low since at least December 1966, when the number of permit-issuing places was only 12,000.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

October 16, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Third Quarter GNP -- First Published Report

Summary

Real GNP declined in the third quarter of 1974 for the third quarter in a row. At the same time the rate of inflation worsened as compared to the second quarter of 1974. These are the main features of the third quarter GNP statistics that the Commerce Department will publish for the first time on Thursday.

It is questionable whether the economy has been quite as weak as suggested by the real GNP, which it is exceedingly difficult to estimate in the present inflationary circumstances and which according to the estimates is now 2.9 percent below the peak level reached in the fourth quarter of 1974. At an annual rate the decline is 2.9 percent also as compared to the second quarter of this year. The differently computed less comprehensive Industrial Production index of the Fed which, however, is usually very sensitive to changes in the business cycle shows practically no change from the second to the third quarter of this year and merely a 1.2 percent decline from the peak reached in the last quarter of 1973.

The more important question concerns developments in the near future. At best we see a flat real economy over the next few quarters and we might well see some further decreases, particularly during this fall and winter. We do not expect a sharp decline but do expect the unemployment rate to rise in this phase.

William Fellner
William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Material

The Commerce release presents a worse picture than was apparent in the unpublished third quarter projection made by Commerce about a month ago. Last month's projection estimated that real GNP (GNP adjusted for inflation) had declined from the second to the third quarter by 1.1 percent (annual rate), while the present estimate puts this decline at 2.9 percent (annual rate). Last month's projection estimated that prices (as measured by the comprehensive GNP price index) rose at an annual rate of 10.6 percent in the third quarter. This month's estimate puts the rise at 11.5 percent.

These figures are for release Thursday, October 17 at 2:00 p.m.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 18, 1974

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

International markets were generally quiet this week, with the exchange rates of individual currencies moving narrowly in response to changing market conditions. The value of the dollar in terms of 14 major currencies declined slightly this week, moving along a trend that has been apparent in the markets for the past 3 weeks.

William Fellner

William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL
1776-1976

Supplementary Analysis of This Week's International Financial Developments

The foreign exchange markets were generally quiet, with trading being described as "subdued and thin." There appeared to be some reluctance on the part of market participants to take positions in foreign currencies due to uncertainties arising from the anticipated payments to be made to the oil producers next week, and their subsequent placement as investment.

In this general environment, the announcement by the Swiss monetary authorities removing prohibition of payment of interest on funds invested in Switzerland by foreigners (in effect since July, 1972) was received as opening a possibility for a sizable inflow of oil funds into Switzerland and thus, for a potential appreciation of the floating Swiss franc. This anticipation by itself appeared to have created considerable demand for the Swiss franc in the foreign exchange markets, and led to a sharp appreciation of the Swiss franc relative to the dollar this week.

The German mark also strengthened moderately this week relative to the dollar in continuation of a trend that emerged last week. An attractive yield on German money market investments (as computed on the basis of the interest rate return, plus the premium on German marks sold for delivery 90 days hence when the investment is unwound and the investor returns into dollar funds), appears to be the major cause of this trend. The monetary authorities in Germany and in the United States acted to moderate the movement of the dollar/mark rate. The German authorities purchased \$86 million while the U.S. Federal Reserve System sold a modest \$6 million worth of German marks in the U.S. exchange markets to ease the demand for that currency. The Federal Reserve obtained the marks by drawing on its mutual lines of credit with the German central bank.

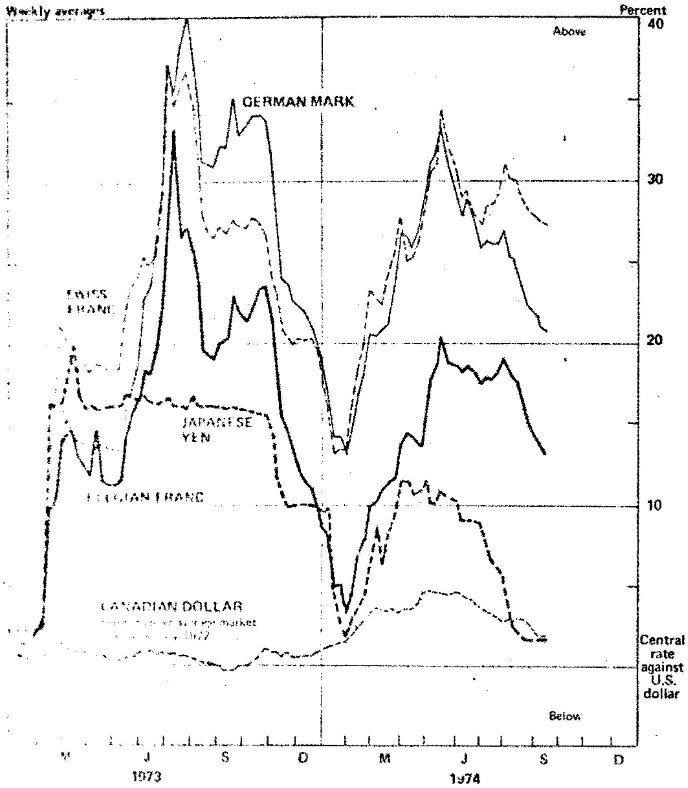
The price of gold declined by almost \$2 this week after the sharp rise of the previous week.

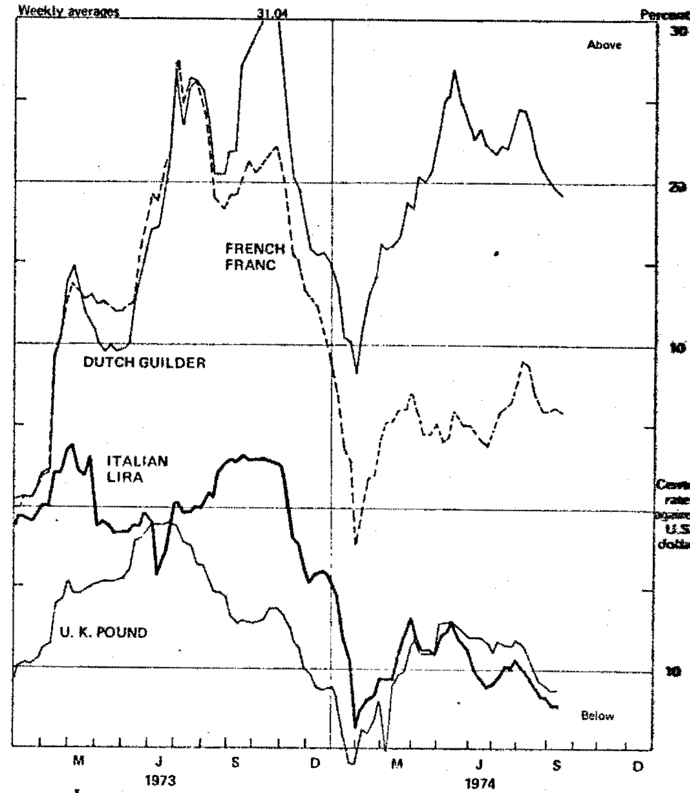
Date: October 18, 1974

CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR

SPOT EXCHANGE RATES AGAINST THE DOLLAR

(Weekly averages of daily offered rates in the U. S. market as percent above or below central rates as established by Smithsonian agreement, December 1971)





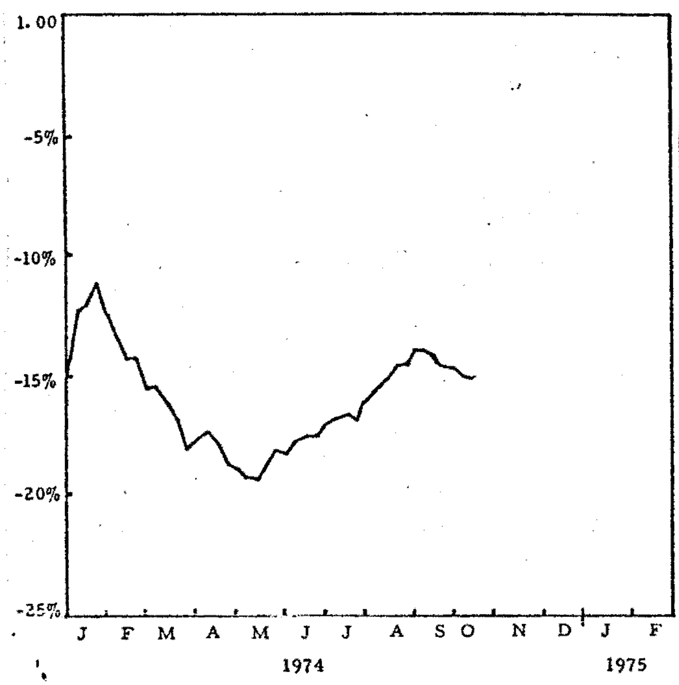
CURRENCY	UNITS PER U. S. $ / U. S. ¢ PER UNIT		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	SMITHSONIAN	TODAY	TODAY	WEEK AGO	MONTH AGO
Canadian Dollar	1.000	.9822			
	¢100.000	¢ 101.81	1.8	1.8	1.3
British Pound	.384	.4287			
	¢260.571	¢ 233.24	-10.5	-10.3	-11.3
German Mark*	3.222	2.5793			
	¢ 31.032	¢ 38.77	24.9	24.1	20.9
Swiss Franc	3.840	2.8885			
	¢ 26.042	¢ 34.62	32.9	31.2	27.7
French Franc	5.116	4.7326			
	¢ 19.548	¢ 21.13	8.1	7.5	6.4
Dutch Guilder*	3.245	2.6413			
	¢ 30.819	¢ 37.86	22.8	21.4	19.8
Belgian Franc*	44.816	38.4320			
	¢ 2.231	¢ 2.602	16.6	15.3	13.7
Italian Lira	581.500	668.8963			
	¢ .172	¢ .1495	-13.1	-13.1	-12.2
Japanese Yen	308.000	318.3699			
	¢ .325	¢ .3141	-3.4	3.0	2.8

* Currencies floating together relative to the U.S. dollar.

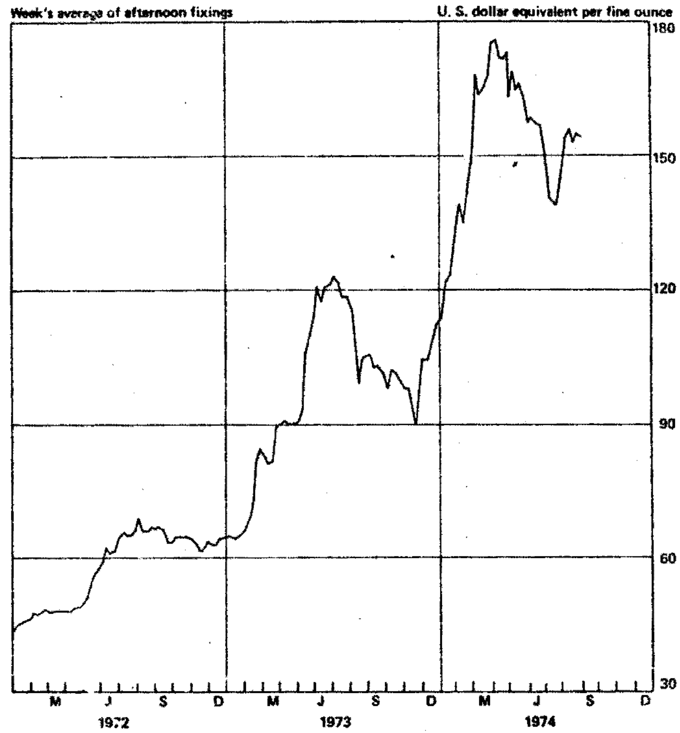
VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

Trade Weighted Average Value of the Dollar

(Percent Change from May, 1970)



GOLD PRICE IN LONDON, 12.5 Kg. BARS



TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

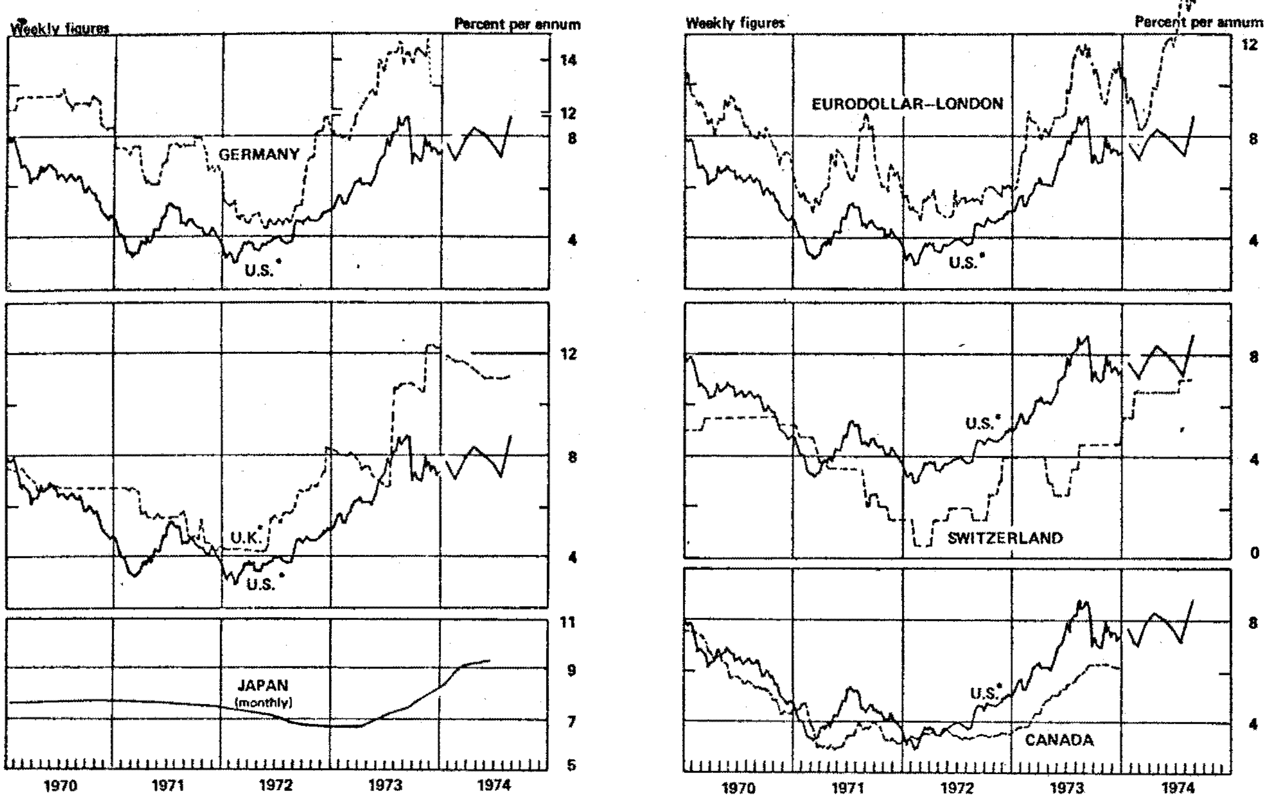
DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May 1970*	Smithsonian
TODAY	-15.25	-4.59
WEEK AGO	-15.00	-4.36
MONTH AGO	-14.52	-3.90
6 MONTHS AGO	-17.62	-6.84
YEAR AGO	-20.30	-9.47

PRICE OF GOLD ON THE LONDON GOLD MARKET

PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
155.25	343.6
157.00	348.6
148.00	322.9
170.00	385.7
101.90	191.1

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

SHORT-TERM INTEREST RATES



U.S., 90-day Treasury bill rate; Germany, interbank loan rate; U.K., 90-day Treasury bill rate; Japan, average rate on bank loans and discounts.
*Monthly beginning January 1974.

U.S., 90-day Treasury bill rate; Eurodollars, three-month rate; Switzerland, three-month deposit rate; Canada, 90-day Treasury bill rate (adjusted to U.S. quotation).
*Monthly beginning January 1974.

Country	Type of Market Instrument	Market Rate	90 Days Forward Premium(+) Discount(-) (a. r.)	Net Covered Yield	Net Arbitrage Incentive:
U.S.	90 Day CD's	9.825	--	9.825	
Eurodollars	90 Day Bank Deposit	10.938	--	10.938	
U.K.	Interbank Loan Rate	11.50	-2.92	8.58	-1.245
Canada	Finance Company Paper	10.75	+ .14	10.89	1.065
Germany	Interbank Loan Rate	9.70	+1.27	10.97	1.145
Switzerland	Commercial Bank Prime Rate	8.00	-1.44	6.56	-3.265
France		14.40	-4.54	9.86	.035
Japan		9.90	-1.74	8.16	-1.665

* 60 days.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 22, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Consumer Price Index for September

The Consumer Price Index (CPI) rose 1.2 percent in September, seasonally adjusted. This was about the same increase as in August but the composition was different. Food prices rose faster in September than in August, and other nondurable commodities rose less: gasoline prices declined 1.5 percent and there was a marked slowdown in the rate of increase in apparel prices. Nondurable commodities (other than food) are usually among the first to respond a slowdown in economic activity.

Prices of durable goods and services rose 1.6 and 1.1 percent respectively from August to September. These prices typically respond more slowly to a slowdown in economic activity.

Over the past twelve months the CPI has increased 12.1 percent, the largest rise for any twelve-month period in the past twenty-five years.

Gary L Seevers

Gary L. Seevers
Member

William Fellner (for Alan Greenspan)

William J. Fellner
Acting Chairman

AMERICAN REVOLUTION BICENTENNIAL
1776-1976

Supplementary Material

The behavior of the CPI and its major components over the past year is shown in the table below. The sharp slowdown in energy price increases in the last three months is particularly notable.

Food prices increased 1.9 percent in September; all major food categories showed increases on a seasonally adjusted basis. Higher mortgage interest costs accounted for somewhat more than one-fourth of the 1.1 percent rise in service prices. The index for medical care services rose 1.0 percent in September, compared with an average monthly increase of 1.5 percent from April to August.

CPI and Major Components - Percent Change and Contribution to Change

(Seasonally adjusted annual rates)

Period	All items	Food	Directly Purchased Energy	All other items
Sept. '73 to Dec. '73	9.2	11.0	48.7	5.5
Dec. '73 to Mar. '74	14.2	19.4	70.7	8.6
Mar. '74 to June '74	10.9	3.1	22.3	12.8
June '74 to Sept.'74	14.2	12.3	3.7	15.2
Sept. '73 to Sept.'74	12.1	11.3	33.9	10.5
Percentage contribution to 12-month change	100	23	18	60

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 25, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions

Summary

It continues to be true that the growth rate of the narrowly defined money supply is about 5-1/2 percent for the past 52 weeks and that the growth rate of the broadly defined money supply is somewhat in excess of 8 percent for that same period. It continues to be true also that we obtain much lesser growth rates for periods such as the past 26 or 13 weeks, but in the last week for which we have data the difference between the growth rates for longer and shorter periods in the foregoing sense has somewhat diminished because of large increases in the final week. Weekly changes are, of course, highly erratic and it is too early to tell whether for reasonably defined periods we are now moving back toward growth rates such as those of the past 52 weeks.

Presumably because of a weakening of the demand for loans, short-term interest rates have now shown a declining tendency for some time. Moreover quite recently long-term rates have also declined slightly but only for the safest types of securities (risk premiums have increased). A significant lowering of interest rates will require success in fighting inflation.

William Fellner

William J. Fellner
Acting Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Some Details

(Optional Reading)

(1) Money Growth. The following figures give numerical concent to the statements in the Summary concerning the growth of the money supply.

Percent Changes of Monetary Aggregates,
Seasonally Adjusted Annual Rates

Period	M_1 (currency plus demand deposits)	M_2 (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
From average of four weeks ending Oct. 17, 1973 to average of four weeks ending Oct. 16, 1974	5.6	8.2	9.7
From average of four weeks ending April 17, 1974 to average of four weeks ending October 16, 1974	3.6	6.3	10.1
From average of four weeks ending July 17, 1974 to average of four weeks ending October 16, 1974	2.0	5.3	3.7

Interest Rates
(average of daily figures)

(percent)

Period	U.S. Government			Prime commercial paper 4-6 months	Moody's Aaa bond rate
	3-month bills	3-5 year issues	long term bonds		
August	8.74	8.64	7.33	11.65	9.00
September	8.36	8.38	7.30	11.23	9.24
Week ending October 25	7.52	7.88	7.18	8.94 *	9.20 *

*Friday not included.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 25, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

International money markets were generally quiet this week except in Japan where the yen came under some selling pressure due to the weakening of economic conditions in Japan.

The value of the dollar in terms of major currencies declined marginally this week in movements that do not appear to represent a noteworthy trend at this time.

William Fellner

William J. Fellner
Acting Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Analysis of This Week's International Financial Conditions

Activity in the international money markets has been rather subdued this week with no significant trends in the movements in the relative value of major continental currencies emerging.

In Germany, the Central Bank announced that effective today, the discount rate (that is the interest rate the Bank charges commercial banks in that country in accommodating their short-term need for lending funds within a predetermined "discount quota") is being reduced from 7 percent (in effect since June 1973) to 6-1/2 percent. The Bank also announced that it is reducing the Lombard discount rate (that is, the rate at which the Bank lends money to commercial banks against selected securities for very short-term purposes) from 9 percent to 8-1/2 percent. The move has been viewed as being, in part, motivated by the desire of the central bank to bring Germany's interest rate structure in a better alignment with the easing interest rates abroad, particularly in the United States. During the past several weeks, the disparity between the rates has as we have noted in our previous reports, caused some flow of funds to Germany, which in turn has caused some strengthening of the exchange rate of that country's currency relative to the dollar.

In part, however, the move was also motivated by the increasing concern of the authorities over the domestic economic developments: While the past, relatively tight monetary posture has produced remarkable results in containing inflationary pressures in Germany, making the country's 6.9 percent consumer price rise in 12 months ending August 1974 by far the lowest of all major industrial countries, it has also created problems in certain sectors of the economy. The high interest rates have severely depressed construction activity in Germany and in general they have contributed to a significant slowdown in economic growth that is getting more severe than previously expected. The small easing of interest rates that is generally anticipated to follow this reduction in the discount rate should provide some stimulus to the economy.

Such a stimulation would carry also the benefit of reducing Germany's huge trade and current account surpluses. These have been of some concern to the community of oil importing nations that is now struggling with deficits caused by the sharp rise in the price of oil. Given the size of the joint deficit that is determined by the volume of combined oil imports on one hand, and the limited capacity of OPEC countries to use their oil revenues to buy goods and services from the rest of the world on the other hand, the large German surplus means that other countries in the group will, by necessity, experience larger deficits. Reflecting the slowdown in Germany's economic activities, the trade figures released today show a 2 percent decline in Germany's imports in September over August, and with exports rising moderately, a rise in Germany's trade surplus to $1.6 billion from August's $1.2 billion. The current account balance also showed a change from a deficit of about $77 million, to a surplus of $620 million.

Japanese yen came under somewhat heavy selling pressure, as the market participants increasingly anticipate further depreciation of that currency due to worsening economic conditions in Japan, mainly due to rampant inflation. Consumer prices in Japan have risen 25.4 percent in 12 months ending August, with no apparent relief in sight as prices rose by 24 percent annual rate in July and 12 percent in August. The Japanese central bank attempted to fend off the pressure on its currency by selling a total of $156 million in keeping the exchange rate close to 300 yen per dollar.

Other major currencies, particularly the Swiss franc and Dutch guilder rose moderately against the dollar. In Switzerland, the measures by the monetary authorities that make it easier for investors to move funds to that country (as discussed last week) are said to provide the explanation for the further increased strength of that currency.

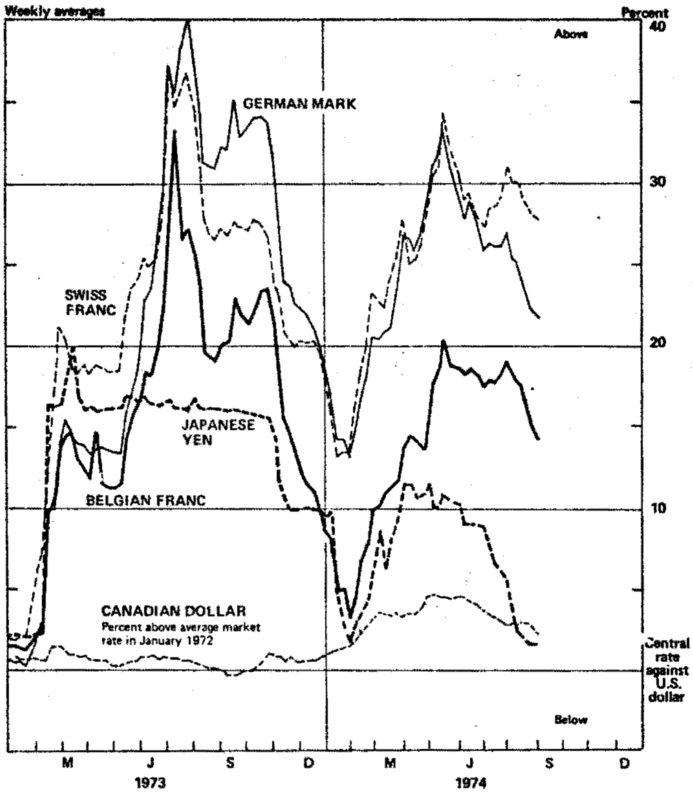
The price of gold in the London gold market rose sharply this week to a 5 month high as the issue of gold ownership by U.S. citizens again became a subject of speculation in that market.

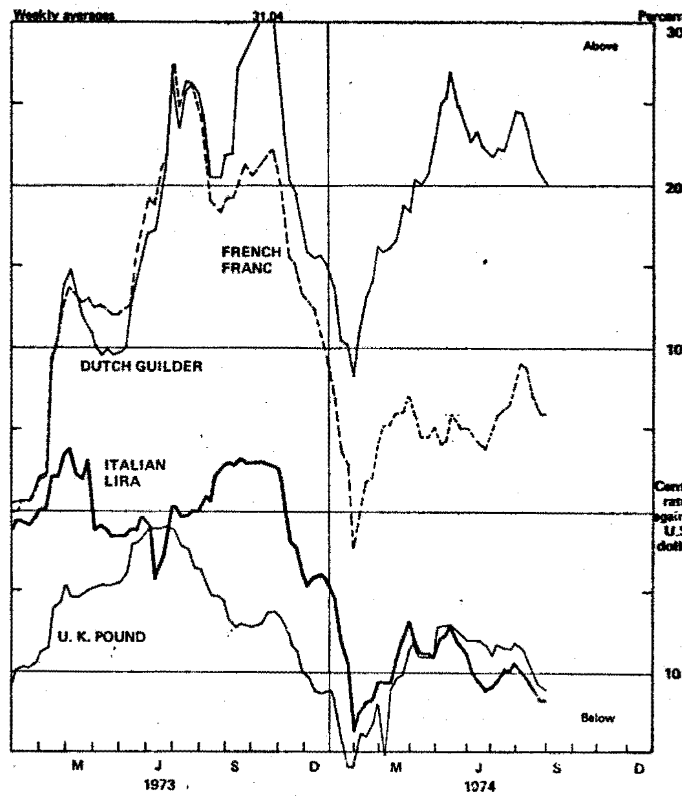
Date: October 25, 1974

CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U. S. DOLLAR

SPOT EXCHANGE RATES AGAINST THE DOLLAR

(Weekly averages of daily offered rates in the U. S. market as percent above or below central rates as established by Smithsonian agreement, December 1971)





CURRENCY	UNITS PER U.S. $ / U. S. ¢ PER UNIT		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	SMITHSONIAN	TODAY	TODAY	WEEK AGO	MONTH AGO
Canadian Dollar	1.000	.9832			
	¢100.000	¢ 101.71	1.7	1.8	1.4
British Pound	.384	.4287			
	¢260.571	¢ 233.25	-10.5	-10.5	-11.2
German Mark*	3.222	2.581			
	¢ 31.032	¢ 38.75	24.9	24.9	21.3
Swiss Franc	3.840	2.879			
	¢ 26.042	¢ 34.98	34.3	32.9	28.3
French Franc	5.116	4.717			
	¢ 19.548	¢ 21.20	8.5	8.1	6.8
Dutch Guilder*	3.245	2.629			
	¢ 30.819	¢ 38.04	23.4	22.8	19.9
Belgian Franc*	44.816	38.066			
	¢ 2.231	¢ 2.6270	17.7	16.6	13.8
Italian Lira	581.500	665.779			
	¢ .172	¢ .1502	-12.7	-13.1	-12.1
Japanese Yen	308.000	299.760			
	¢ .325	¢ .3336	2.6	-3.4	4.2

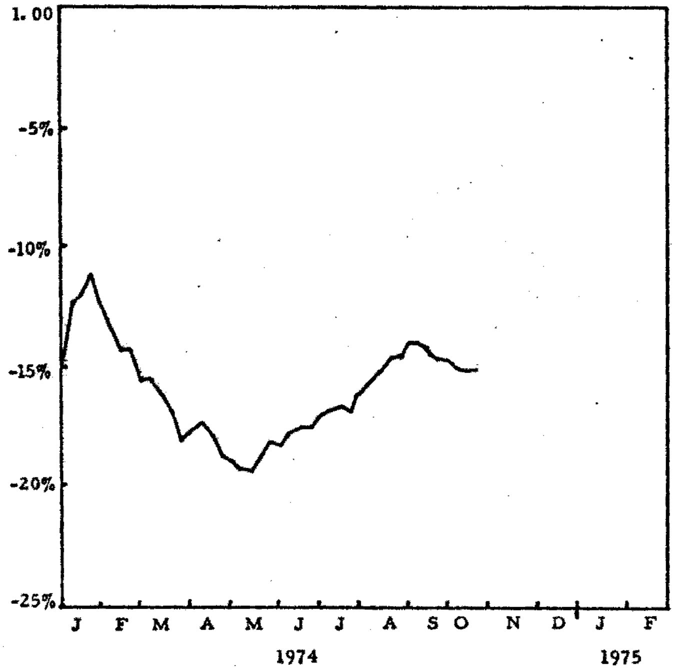
* Currencies floating together relative to the U.S. dollar.

Date: October 25, 1974

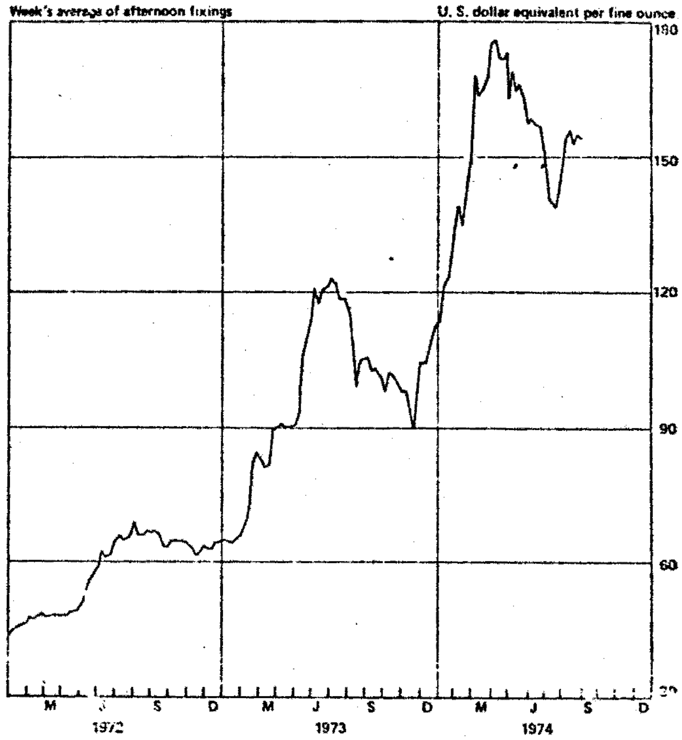
VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

Trade Weighted Average Value of the Dollar

(Percent Change from May, 1970)



GOLD PRICE IN LONDON, 12.5 Kg. BARS



TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

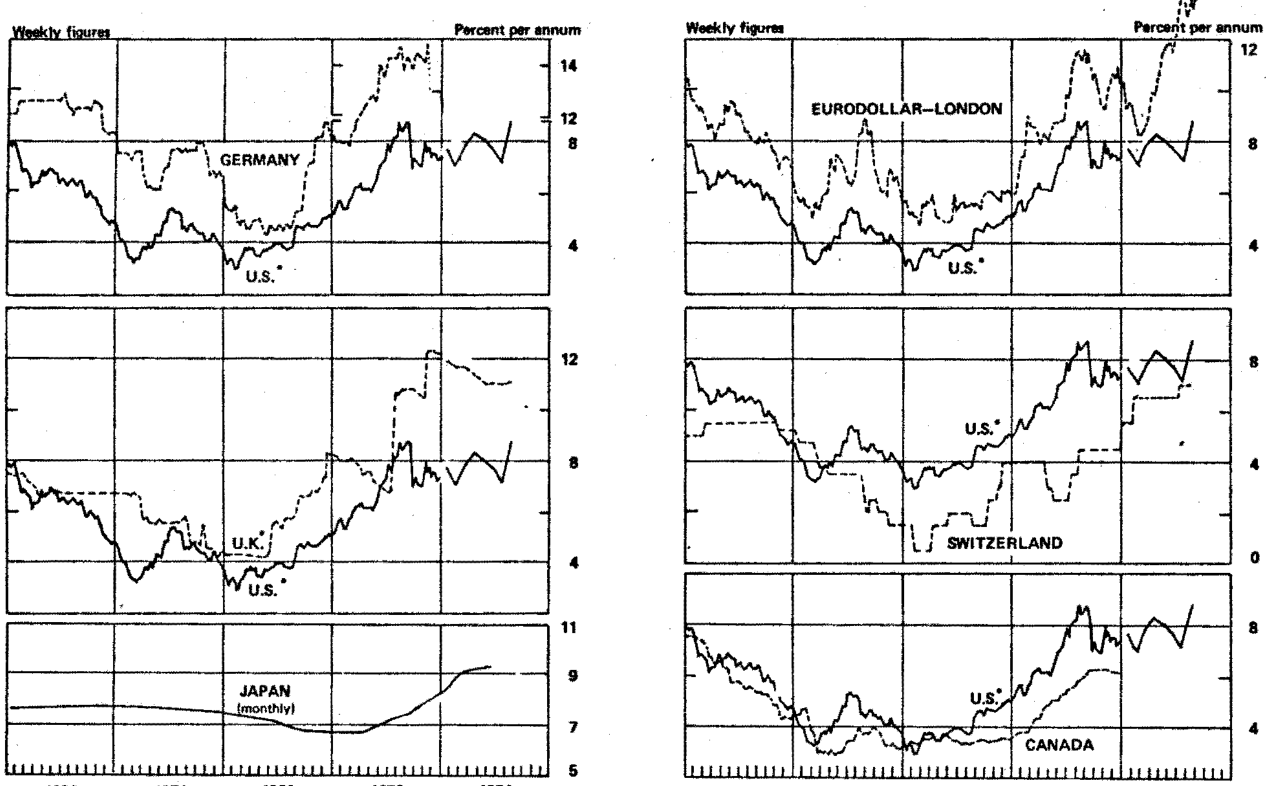
DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May 1970*	Smithsonian
TODAY	-15.30	-4.65
WEEK AGO	-15.25	-4.59
MONTH AGO	-14.88	-4.23
6 MONTHS AGO	-18.27	-7.46
YEAR AGO	-20.70	-9.78

PRICE OF GOLD ON THE LONDON GOLD MARKET

PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
163.25	366.4
155.25	343.6
147.25	320.7
169.00	382.9
100.10	186.0

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

SHORT-TERM INTEREST RATES



U.S., 90-day Treasury bill rate; Germany, interbank loan rate; U.K., 90-day Treasury bill rate; Japan, average rate on bank loans and discounts.
*Monthly beginning January 1974.

U.S., 90-day Treasury bill rate; Eurodollars, three-month rate; Switzerland, three-month deposit rate; Canada, 90-day Treasury bill rate (adjusted to U.S. quotation).
*Monthly beginning January 1974.

Country	Type of Market Instrument	Market Rate	90 Days Forward Premium(+) Discount(-) (a. r.)	Net Covered Yield	Net Arbitrage Incentive:
U.S.	90 Day CD's	9.200	-	9.200	-
Eurodollars	90 Day Bank Deposit	10.25	-	10.25	-
U.K.	Interbank Loan Rate	11.50	-3.40	8.10	-1.10
Canada	Finance Company Paper	10.625	-.28	10.345	1.145
Germany	Interbank Loan Rate	9.50	+.72	10.22	1.02
Switzerland	Commercial Bank Prime Rate	8.00	+.57	8.57	-.63
France		14.40	-4.52	9.88	+.68
Japan		9.90	-1.47	8.43	-.77

* 60 days.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20506

October 30, 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: The U.S. Foreign Trade Balance in September, and in the First Three Quarters of 1974

The U.S. trade deficit was reduced in September to $233 million (seasonally adjusted) from $1.1 billion in August as a result of declines in imports of oil, steel and autos. Monthly figures are highly erratic; the reduction in the deficit in September should not be viewed as significant.

In the third quarter, the deficit was $2.6 billion (seasonally adjusted) on a balance-of-payments basis. For the first nine months of 1974 the deficit has been at an annual rate of $5.7 billion. This compares to a $.5 billion surplus in the third quarter of 1973, and a surplus of $471 million for 1973 as a whole.

The swing from a surplus in 1973 to a deficit in 1974 largely reflects the higher price of oil, and is typical for oil importing countries, given the limited capacity of oil exporters to absorb goods in the amount of their revenues. A deficit such as one experienced by the United States in the third quarter of this year should be expected to continue and possibly increase in 1975, with capital inflows (i.e., borrowing from abroad) financing it. Efforts to reduce the deficit by increasing our exports, or reducing our imports of commodities other than oil would reduce availability of goods to U.S. residents and thereby further exacerbate our current inflationary problems.

Gary L. Seevers

Gary L. Seevers
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Analysis of the
U.S. Trade Developments in September
and in the Third Quarter of 1974

After an exceptionally large deficit of $1,132 million in August (computed on the so-called Census Bureau basis) the U.S. trade balance reverted to a much smaller, but equally "exceptional", deficit of $233 million in September. Underlying this change in the balance has been a substantial drop in imports, while exports remained relatively flat.

Imports in September amounted to $8,519.5 million (seasonally adjusted, Census basis). This total was 10.3 percent lower than in August. Lower arrivals of fuel and a slightly lower average unit value of petroleum and products accounted for much of the drop in imports. The average unit value declined from $11.69 in August to $11.46 in September, while imports of oil and petroleum products were as follows:

	Quantity (million barrels)			Value (millions of $)		
	U.S.	Virgin Islands*	Total*	U.S.	Virgin Islands*	Total*
1973						
July	167.6	7.6	175.2	525.9	21.5	547.4
Aug	228.0	21.4	249.4	750.9	62.7	813.6
Sept	196.9	10.8	207.7	665.2	35.4	700.6
1974						
July	200.7	19.4	220.1	2,346.9	217.8	2,564.7
Aug	206.6	11.0	217.6	2,422.8	114.4	2,537.2
Sept	178.1	17.8	195.9	2,047.1	192.2	2,239.3

*Virgin Islands imports are excluded from Census basis computation, but are included in the balance-of-payments computation.

Imports in other categories also declined in September. Particularly large declines were recorded in imports of steel and passenger cars from Canada, both of which had risen sharply in the preceding month. Other consumer goods also fell. Food imports were also lower as purchases of coffee. cocoa and sugar dropped in September.

For the third quarter as a whole petroleum imports rose 6 percent in terms of volume but, because prices remained relatively level from April-June, showed only a small value increase over the second quarter. Nonfuel imports rose 6 percent but all of this rise was due to higher prices as the quantity declined for many items. A major exception was steel, imports of which advanced strongly in both value and volume in the third quarter as U.S. demand remained high and shortages continued. Automotive arrivals from Canada rose after declining in the second quarter, and imports of consumer and capital goods continued their strong advance. Foods dipped slightly. Imports of cars from overseas were down, probably because inventory levels are presently very high.

U.S. General Imports
(Seasonally adjusted; annual rates)
billions of dollars

	1973	1974					Value Changes	
	Year	1Q	2Q	3Q	Aug.	Sept.	2Q-3Q	Aug.-Sept.
Foods and feeds	9.1	11.4	10.6	10.1	10.3	9.0	-0.5	-1.3
Industrial materials	26.7	40.2	50.7	56.4	59.3	54.2	+5.7	-5.1
Fuels and lubricants	(8.3)	(19.1)	(26.7)	(27.9)	(30.8)	(25.5)	(+1.2)	(-5.3)
Iron and steel	(3.2)	(3.5)	(4.5)	(6.1)	(7.1)	(6.1)	(+1.6)	(-1.0)
Capital goods	7.6	8.2	9.7	10.4	10.4	10.8	+0.7	+0.4
Automotive equipment	10.9	11.8	12.5	13.9	15.5	12.0	+1.4	-3.5
From Canada	(5.9)	(5.9)	(5.3)	(7.0)	(7.8)	(6.6)	(+1.7)	(-1.2)
From other	(5.0)	(6.0)	(7.2)	(6.6)	(6.3)	(6.0)	(-0.6)	(-0.3)
Consumer goods (non-auto)	13.2	13.2	14.8	15.5	16.1	15.6	+0.7	-0.5
All other	2.0	2.0	2.3	2.4	2.2	2.5	+0.1	+0.3

Exports in September were at seasonally adjusted $8,286.2 million (Census basis) after having declined by 1 percent from August. Agricultural exports declined despite price increases for nearly all major agricultural commodities. Among non-agricultural goods, a large increase in shipments of civilian aircraft (which are prone to erratic month-to-month changes) was offset by lower exports of machinery (the first such drop in almost a year) and of various industrial materials, mainly steel, chemicals, woodpulp.

In the third quarter, exports totaled $98.5 billion at an annual rate. Exports of agricultural commodities dropped 10 percent; most of this reflected lower volumes as price remained relatively unchanged from second quarter levels. Nonagricultural exports rose 7 percent, with large increases in capital equipment, industrial supplies (mostly coal, chemicals, and paper), and automotive exports, principally to Canada. Consumer goods dipped slightly.

U.S. Exports
(Including Department of Defense Shipments)
(Seasonally adjusted; annual rates)
Billions of dollars

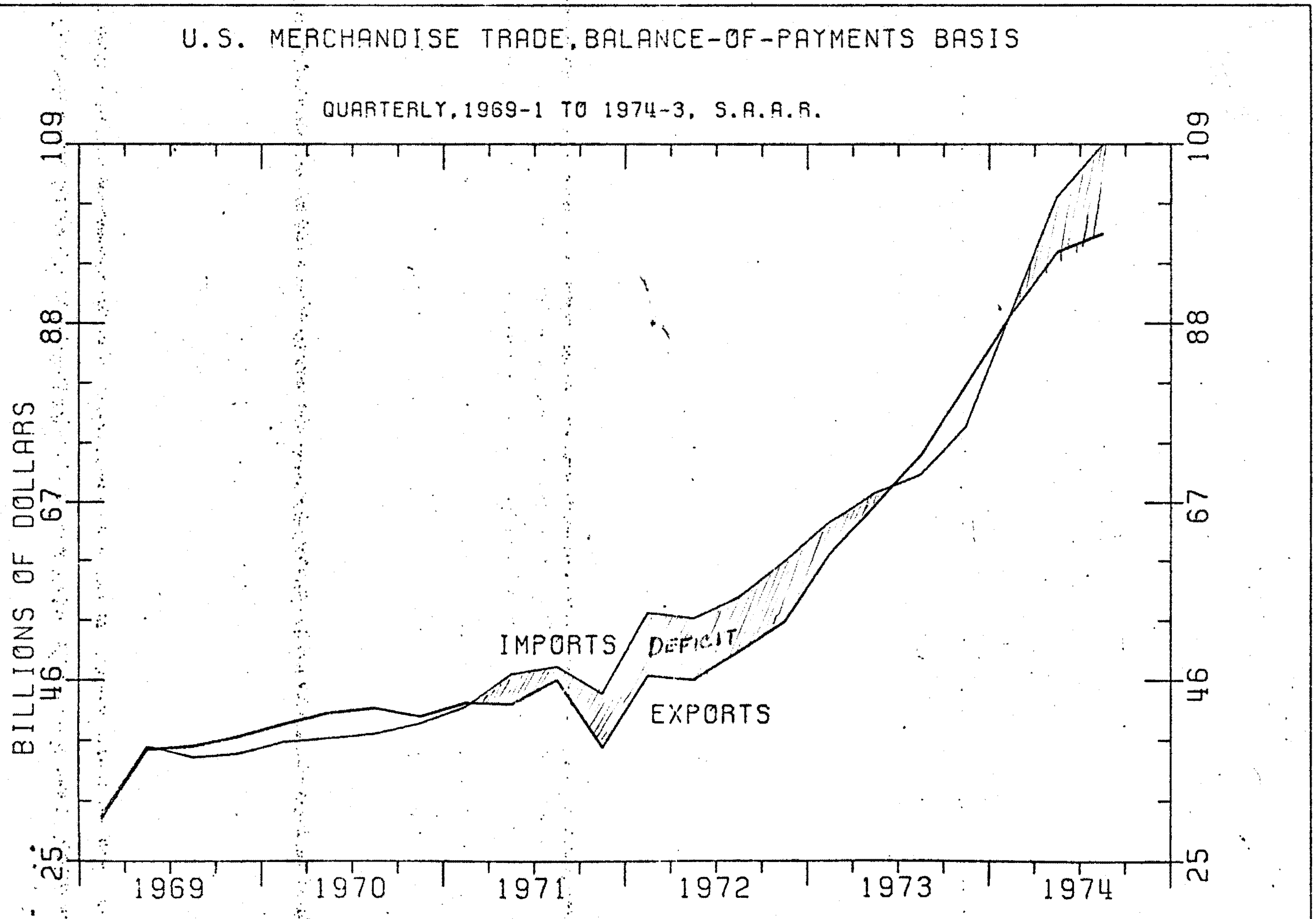
	1973	1974					Value Changes	
	Year	1Q	2Q	3Q	Aug.	Sept.	2Q-3Q	Aug. Sept.
Foods and feeds	15.1	19.8	18.3	16.7	16.0	16.2	-1.6	+0.2
Industrial materials	19.8	26.5	31.2	31.8	32.4	30.5	+0.6	-1.9
Capital goods	21.5	26.1	28.7	30.8	31.3	31.6	+2.1	+0.3
Civilian aircraft	(4.1)	(5.1)	(5.8)	(4.7)	(4.3)	(5.1)	(-1.1)	(+0.8)
Machinery	(17.0)	(20.4)	(22.3)	(25.2)	(26.5)	(25.2)	(+2.9)	(-1.3)
Automotive equipment	6.3	7.2	7.3	8.7	8.6	8.6	+1.4	---
To Canada	(4.7)	(5.2)	(4.9)	(6.0)	(6.3)	(6.0)	(+1.1)	(-0.3)
To other	(1.6)	(2.0)	(2.4)	(2.6)	(2.6)	(2.7)	(+0.2)	(+0.1)
Consumer goods (non-auto)	4.7	5.9	6.6	6.3	6.6	6.2	-0.3	-0.4
All other	3.9	4.5	5.3	5.6	5.9	5.7	+0.3	-0.2
Agricultural goods	17.9	23.5	22.7	20.3	19.7	19.3	-2.4	-0.4
Nonagricultural goods	53.5	66.5	74.8	80.3	81.6	80.8	+5.5	-0.8

Overall Assessment

The U.S. trade balance, just like the trade balance of virtually every industrial and developing country in the world, continues to be affected by the sharp rise in the prices of oil. Given the limited capacity of the oil-exporting nations to physically absorb goods and services in the full amount of their revenues, trade and current account deficits of the oil importing countries as a group are an inevitable consequence of the higher oil bill. There is simply nothing that the oil importers as a group can do to eliminate these deficits in the near term short of an oil price reduction and/or a severe curtailment of oil imports, both of which are largely beyond their control. A reduction of the deficit by any other means by one of the oil-importing countries will simply mean an increase in the deficit in the international accounts of another country--with retaliation and a self-destructive trade war as a likely consequence. In this environment, therefore, all countries must be prepared to tolerate trade and current account deficits in some proportion to their oil imports, financing them by borrowing abroad, if the world's tranding system is to survive.

In 1973, when the U.S. oil imports amounted to $8.3 billion, the U.S. recorded a surplus in its trade of $.5 billion. In the first 3 quarters of 1973 the oil bill amounted to $5.5 billion; in the same period in 1974, with the oil volume up by only 3.7 percent, it amounted to $19.2 billion: The sharply higher oil price and the moderate increase in quantity of oil imported added $13.7 billion to our deficit in the first 3 quarters of the year. With our actual deficit for the first 3 quarters of $4.3 billion, it can be said that we have already partially offset our oil deficit, with the rise in the value of our agricultural exports being the major element in the offset. Against this backdrop, any special effort to further reduce our trade deficit by measures other than those involving energy conservation, may be viewed not only as being inconsistent with our international responsibilities, but also as detrimental to our domestic policy objectives: Efforts to reduce the deficit by increasing our exports or reducing our imports would reduce the available supply of goods to U.S. consumers, and thereby further exacerbate our inflationary problems.

Current projections call for a trade deficit of around $7.0 billion in 1974. Thus, the merchandise trade deficit in September of $508 million (balance-of-payments basis) was lower than may have been expected. With a cumulative deficit during first nine months of the year of seasonally adjusted $4.3 billion, we may expect monthly deficits in the remaining three months of the year at around $900 million per month. In 1975, such deficits should be expected to continue at about $1.0 billion per month rate.


U.S. MERCHANDISE TRADE, BALANCE-OF-PAYMENTS BASIS
QUARTERLY, 1969-1 TO 1974-3, S.A.A.R.
BILLIONS OF DOLLARS
109
88
67
46
25
1969
1970
1971
1972
1973
1974
IMPORTS
DEFICIT
EXPORTS