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CONFIDENTIAL (FR)

September 15, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Aug.	9-3-76	95.5	1.9	3.9	2.4
Unemployment rate (per cent)	Aug.	9-3-76	7.9	7.8 1/	7.3 1/	8.5 1/
Insured unemployment rate (%)	Aug.	9-3-76	4.8	4.7 1/	4.3 1/	5.8 1/
Nonfarm employment, payroll (mil.)	Aug.	9-3-76	79.4	3.6	2.6	3.1
Manufacturing	Aug.	9-3-76	19.0	5.3	1.2	4.2
Nonmanufacturing	Aug.	9-3-76	60.4	3.1	3.0	2.8
Private nonfarm:						
Average weekly hours (hours)	Aug.	9-3-76	36.2	36.2 1/	36.2 1/	36.2 1/
Hourly earnings ($)	Aug.	9-3-76	4.88	4.87 1/	4.83 1/	4.57 1/
Manufacturing:						
Average weekly hours (hours)	Aug.	9-3-76	39.9	40.2 1/	40.2 1/	39.7 1/
Unit labor cost (1967=100)	July	8-27-76	144.3	7.5	3.4	1.8
Industrial production (1967=100)	July	8-16-76	130.4	2.8	6.2	10.1
Consumer goods	July	8-16-76	137.3	.0	3.5	8.5
Business equipment	July	8-16-76	135.6	3.6	4.5	6.5
Defense & space equipment	July	8-16-76	77.3	7.8	.0	-4.6
Material	July	8-16-76	132.0	3.6	8.7	15.3
Consumer prices (1967=100)	July	8-20-76	170.9	5.6	6.2	5.4
Food	July	8-20-76	181.2	1.3	5.1	1.9
Commodities except food	July	8-20-76	156.9	6.9	6.5	4.7
Services	July	8-20-76	181.0	7.3	6.7	8.4
Wholesale prices (1967=100)	Aug.	9-2-76	183.0	-.3	3.0	4.0
Industrial commodities	Aug.	9-2-76	183.0	7.9	7.6	6.7
Farm products & foods & feeds	Aug.	9-2-76	180.3	-34.9	-13.9	-4.0
Personal income ($ billion) 2/	July	8-18-76	1384.3	12.2	9.4	10.6
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	July	8-31-76	48.9	-2.1	2.2	18.0
Capital goods industries	July	8-31-76	14.4	.2	5.6	14.6
Nondefense	July	8-31-76	13.4	13.2	16.2	24.9
Defense	July	8-31-76	1.0	-60.9	-53.0	-45.9
Inventories to sales ratio:						
Manufacturing and trade, total	July	8-14-76	1.47	1.46 1/	1.45 1/	1.56 1/
Manufacturing	July	8-31-76	1.61	1.60 1/	1.58 1/	1.77 1/
Trade	July	8-14-76	1.33	1.32 1/	1.31 1/	1.35 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	July	8-31-76	.833	.838 1/	.845 1/	.824 1/
Retail sales, total ($ bil.)	Aug.	9-10-76	55.0	2.3	4.1	10.5
GAF	Aug.	9-10-76	13.6	2.7	6.1	8.3
Auto sales, total (mil. units) 2/	Aug.	9-3-76	10.5	2.9	4.2	12.2
Domestic models	Aug.	9-3-76	8.9	1.6	4.0	16.4
Foreign models	Aug.	9-3-76	1.6	10.9	5.4	-6.4
Plant & Equipment Expen. ($ bil.) 2/	1975	9-7-76	112.78	--	--	.3
All Industries	1976 3/	9-7-76	121.15	--	--	7.4
	QI'76	9-7-76	114.72	2.6	--	.1
	QII'76	9-7-76	118.12	3.0	--	5.0
	QIII'76 3/	9 7-76	122.96	4.1	--	9.6
	QIV'76 3/	9-7-76	127.03	3.3	--	13.6
Capital Appropriations, Mfg.	QII'76	8-30-76	12,832	13.2	--	16.9
Housing starts, private (thous.) 2/	July	8-17-76	1,387	-9.2	1.5	14.9
Leading indicators (1967=100)	July	8-27-76	109.5	.5	2.1	7.2

1/ Actual data. 2/ At Annual rate. 3/ Planned-Commerce August Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity appears to have continued to grow at a moderate pace in the past two months, but additional evidence of a more vigorous expansion ahead was also apparent. Industrial production increased moderately last month and in July (revised up), retail sales grew vigorously in August and new orders for nondefense capital goods in July continued the impressive performance of the past half year. In addition, incoming price and wage data continue to show relatively moderate rates of increase compared with those of last year.

Retail sales advanced sharply by 2.3 per cent in August after a slight decline in July. Increased sales in the automotive group contributed strongly to the August advance but gains were widespread. Excluding autos and mainly nonconsumption items, the advance in retail sales was still strong; the August level for this group was 2.7 per cent above the second quarter average.

Spending on consumer durable goods has, on balance, remained strong throughout this recovery, while outlays for nondurables have slowed to a more moderate pace recently following initial strong gains. Sales of soft goods rose only 1.2 per cent in the second quarter. The most recent data, however, suggested renewed interest in soft goods as sales of general merchandise in August were a strong 4.6 per cent above the second quarter average. Sales of furniture and appliances also seem to be gaining momentum with an advance of 3.1 per cent from the second quarter.

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

	1975 IV	1976 I	1976 II	II-Aug.a	1976 May	1976 June	1976 Julya	1976 Aug.a
Total sales	2.0	3.8	1.9	2.8	-1.5	2.1	-.3	2.3
(Real*)	1.3	2.6	.7	n.a.	-2.4	1.6	-1.4	n.a.
Total, less auto and nonconsumption items	1.2	2.4	1.3	2.7	-.6	2.0	-.1	1.7
GAF	3.2	1.4	-.2	4.7	-.9	3.1	.2	2.7
Durable	3.7	7.5	3.4	3.3	-3.5	2.2	-.7	3.8
Auto	4.9	9.1	4.5	3.7	-4.3	2.7	-1.9	5.4
Furniture and appliances	6.5	1.0	2.7	3.1	-.2	1.6	-.7	2.9
Nondurable	1.3	2.0	1.2	2.6	-.6	2.1	-.2	1.6
Apparel	1.4	2.5	-3.4	6.8	1.6	2.6	3.8	.7
Food	.3	2.3	1.2	1.7	1.6	1.2	-.5	.9
General merchandise	2.8	1.2	-.1	4.6	-1.8	3.7	-.6	3.3
Gasoline	-.6	2.9	.0	2.7	-2.0	3.0	-.3	1.6

* Deflated by consumer price index for all commodities
a Advance.

AUTO SALES AND STOCKS
(seasonally adjusted)

	1975 IV	1976 I	1976 II	1976 Apr.	1976 May	1976 June	1976 July	1976 Aug.
Total auto sales, millions	9.2	10.0	10.3	10.5	10.0	10.5	10.2	10.5p
Imports	1.3	1.3	1.4	1.5	1.5	1.4	1.4	1.6p
Domestic	7.9	8.7	8.9	9.0	8.5	9.1	8.7	8.9
Total domestic stocks, days supply	56.2	51.2	52.1	51.0	54.1	52.1	53.3	53.7
Large	47.4	39.1	41.0	39.7	40.0	41.0	40.6	n.a.
Small	66.9	68.6	72.5	72.5	80.2	72.5	77.4	n.a.

p - preliminary
n.a. - not available

Total auto sales were at a 10-1/2 million unit annual rate in August, up from 10.2 million in July and equal to the strongest sales pace of this recovery. Sales of imported cars rose to a 1.6 million unit annual rate--the highest since late last summer. Despite the short supply of the popular 1976 intermediate and larger model cars and smaller price discounting, the sales rate for domestic models rose to an 8.9 million unit annual rate last month from 8.7 million in July. These sales in the first 10 days of September were at 9-1/2 unit annual rate.

Personal income flows have generally remained strong since mid-1975. Although advances in wage and salary income were smaller over the April to July period--mainly reflecting a reduced pace of employment growth--total income gains were sustained by increases in farm income and a jump in social security payments. In real terms, personal income has risen 4.9 per cent since its trough in July 1975--a more moderate advance than the average recovery after earlier contractions--to a level only slightly above its prerecession high.

Growth in industrial production has slowed somewhat in recent months from the rapid pace earlier in the year. The index is estimated to have increased about .5 per cent in August--the same as the upward revised July figure--compared with an average monthly rise of 0.8 per cent during the first five months of the year. The recent slowing has been concentrated in consumer goods and nondurable material industries--apparently an adjustment by manufacturers to the earlier buildup of inventories and the recent lull in retail sales. In August, consumer

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

	July 75- July 76	Apr. 76- July 76
Current Dollars		
Personal Income	10.6	9.7
Wage and Salary Disbursements	11.0	6.7
Nonwage income	9.8	15.5
Transfer Payments	8.6	8.3
Constant Dollars*		
Personal Income	4.9	3.2
Wage and Salary Disbursements	5.4	0.4

NOTE: July 1975 was the specific low for deflated wage and salary disbursements.

* Data are deflated by the CPI.

CYCLICAL CHANGES IN REAL PERSONAL INCOME, AND WAGES AND SALARIES
(Cumulative per cent change based on seasonally adjusted data deflated by the CPI)

	Duration (months)	Personal Income	Wage and Salary Disbursements
Contractions*			
12/48 - 6/49	6	-2.7	-3.3
5/53 - 6/54	13	-1.4	-3.1
3/57 - 4/58	13	-1.9	-5.7
7/60 - 12/60	5	-1.1	-1.9
10/69 - 11/70	13	.3	-2.1
11/73 - 7/75	20	-3.2	-6.3
Expansions--one year after trough			
Trough - 6/49	12	8.2	8.3
6/54	12	8.4	8.7
4/58	12	7.5	9.9
12/60	12	6.3	6.4
11/70	12	4.6	3.9
7/75	12	4.9	5.4

NOTE: Data are deflated by the CPI.
* Reference months are specific highs and lows for deflated wage and salary component.

goods production was unchanged. Output of business equipment showed a moderate rise, as higher capital appropriations and orders are slowly being translated into production.

Materials capacity utilization was little changed in August. Production of durable materials is estimated to have increased sharply and output of nondurable materials was little changed. At 81.5 per cent in August, the utilization index remains well below the 1973 high of 93 per cent.

Inventories have been accumulating at a moderate pace on average for the past few months. The book value of business inventories (manufacturing and trade) rose at an $18.5 billion annual rate in July--down from the $26 billion average rate of increase in the second quarter--but the inventory-sales ratio edged up, reflecting the decline in retail sales. Manufacturers inventories rose at a $10.4 billion annual rate in July, less than half the $22.5 billion June rate of increase, but only slightly below the $11.0 billion second quarter average rate of rise. Most of the decrease in the rate of inventory growth was at durable manufacturers, although nondurable stocks also rose at a slower rate in July than in June. By stage of processing, materials and supplies, work-in-process and finished goods inventories all rose less in July than in June, with work-in-process essentially unchanged in July. Wholesale trade inventories were virtually unchanged, following an upward-revised $10.2 billion gain in June. At retail, inventories rose at a $7.4 billion annual rate in July, slower than the $11.5 billion June rate of increase,

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book values, $ billions)

	1975			1976			
	II	III	IV	I	II	June	July
Manufacturing and trade	-18.8	5.4	-1.3	19.5	26.4	44.1	18.5
Manufacturing	-12.5	-6.6	.6	6.3	11.0	22.5	10.4
Durable	-4.3	-8.6	-3.5	1.8	5.7	12.4	2.7
Nondurable	-8.2	2.0	4.2	4.5	5.4	10.0	7.7
Trade, total	-6.3	11.9	-1.9	13.2	15.3	21.7	8.1
Wholesale	-2.7	3.1	-2.0	5.1	9.0	10.2	.7
Retail	-3.6	8.8	.1	8.0	6.3	11.5	7.4
Auto	-1.7	5.5	.3	-.5	- .8	-.9	3.7

INVENTORY RATIOS

	1973	1974	1975	1976		
	II	II	II	II	June	July
Inventory to sales:						
Manufacturing and trade	1.49	1.50	1.61	1.47	1.46	1.47
Manufacturing	1.60	1.65	1.84	1.60	1.60	1.61
Durable	1.91	2.04	2.42	2.03	2.01	2.04
Nondurable	1.22	1.21	1.24	1.16	1.16	1.16
Trade, total	1.37	1.35	1.38	1.34	1.32	1.33
Wholesale	1.20	1.14	1.26	1.22	1.19	1.20
Retail	1.49	1.52	1.48	1.43	1.42	1.44
Inventories to unfilled orders:						
Durable manufacturing	.749	.677	.829	.838	.838	.833

but about in line with the average rate of accumulation in the second quarter. The July rise was entirely at durable goods stores, as non-durable goods stocks at retail declined slightly.

The unemployment rate edged up to 7.9 per cent in August, seasonally adjusted, with no significant change in household employment and the civilian labor force. Since May, gains in total household employment have slowed to a third the rate of increase during the first 11 months of the recovery, and the unemployment rate has risen by 0.6 percentage points--although these movements have been accentuated by seasonal adjustment problems. The rise in unemployment in recent months has been widespread reflecting increases in the number of entrants to the labor force as well as a rise in the number of job losers.

Nonfarm payroll employment, where monthly movements do not always coincide with the household series, increased by about 200,000 (strike adjusted) in August, with gains largely in service-producing industries, and some improvement in factory employment as well.

Although the recovery in business fixed investment has remained slower than usual, recent data suggest that capital spending will show some acceleration in the second half of 1976. The latest Commerce survey of anticipated plant and equipment expenditures--conducted in late July and August--showed business planning a 7.4 per cent increase for 1976. These plans are virtually identical to the 7.3 per cent increase reported

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1975	1976				
	QIV	QI	QII	May	July	August
Total	8.5	7.6	7.4	7.3	7.8	7.9
Men, 20 years and older	7.0	5.7	5.7	5.6	6.1	5.9
Females, 20 years and older	7.9	7.4	7.1	6.8	7.6	7.7
Both sexes, 16-19 years	19.5	19.4	18.7	18.5	18.1	19.7
Household Heads	5.9	5.0	4.9	4.8	5.4	5.2
White-collar workers	4.8	4.6	4.6	4.6	4.8	5.0
Blue collar workers	11.2	9.3	9.1	9.0	9.6	9.8

CHANGES IN EMPLOYMENT
(Average monthly change in thousand; based on seasonally adjusted data)

	June 75* May 76	May 76 Aug. 76	July 76 Aug. 76
Nonfarm Payroll Series			
Total	235	169	239
(Strike adjusted)	(241)	(171)	(206)
Construction	-1	-14	-26
Manufacturing	79	19	84
(Strike adjusted)	(86)	(17)	(62)
Durable	47	19	68
Nondurable	31	0	16
Trade	51	58	53
Services and Finance	65	71	89
Total Government	35	45	75
State and Local	36	41	57
Household Series			
Total	291	95	74

* June 1975 was the specific cyclical low for payroll employment.

in the May survey, but there was a shortfall from earlier second quarter projections and an upward revision in the anticipated outlays for the fourth quarter which is consistent with the strength seen in commitments data for business fixed investment. The latest Commerce survey continues to show that nondurable manufacturers and utilities are projecting the largest increases. Compared to the May survey, the most substantial increases in spending plans were concentrated in durable manufacturing with all major industries reporting higher plans than in the May survey.

New orders for nondefense capital goods, which typically lead shipments by two to three quarters, rose 13.2 per cent (not at an annual rate) in July. This was by far the largest of seven consecutive increases in this series, which is now 32 per cent above the level of December 1975. The gain in July was due to a sharp rise in bookings for nonelectrical machinery, aircraft, and railroads and shipbuilding. In real terms, nondefense capital goods orders have increased 28 per cent since December 1975 but are still 14 per cent below their peak of July 1974. The volatile series on contracts for commercial and manufacturing buildings (measured in square feet of floor space) edged off in July, but was up 7 per cent from a year ago.

Newly approved capital appropriations of the 1000 largest manufacturing corporations rebounded by 13.2 per cent in the second quarter following the first quarter drop. Excluding the volatile petroleum industry, the total has increased for three consecutive quarters and exceeds slightly the previous peak attained in the third quarter of

Commerce Survey of Anticipated Plant and Equipment Expenditures

(Per cent increase from 1975)

	Dec. 1975	Feb. 1976	May 1976	Aug. 1976
All Business	5.5	6.5	7.3	7.4
Manufacturing	5.0	8.1	9.5	10.1
Durable	.8	5.0	4.1	7.0
Nondurable	8.4	10.8	14.1	12.7
Nonmanufacturing	5.8	5.2	5.7	5.5
Mining	-4.1	2.3	.5	2.6
Railroads	-9.9	-18.4	-15.2	-14.5
Other Transportation	-13.9	-17.3	-26.1	-3.2
Electric Utilities	17.7	15.7	15.6	14.0
Gas and Other Utilities	20.1	13.7	14.6	8.9
Communications	13.1	6.5	8.6	8.9
Commercial and Other	.8	3.4	3.3	.8

Manufacturers' New Capital Appropriations[1/]

(Per cent change from prior period based on seasonally adjusted quarterly totals)

	1975				1976	
	QI	QII	QIII	QIV	QI(r)	QII(p)
Manufacturing	-10.1	-3.6	-7.3	26.4	-11.9	13.2
Ex Petroleum	-16.8	-12.1	-5.5	18.9	1.8	31.2
Durables	-28.2	-16.9	-5.8	10.4	18.5	35.1
Nondurables	9.0	5.6	-8.1	35.4	-25.9	-2.9
Nondurables Ex Petroleum	3.8	-6.1	-5.2	28.2	-14.2	26.2

1/ Source is Conference Board Survey of 1000 largest manufacturing companies as ranked by total assets.

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

	1975		1976					July 75 to July 76
	QIII	QIV	QI	QII	May	June	July	
New Orders Received by Manufacturers								
Total Durable Goods								
Current Dollars	7.3	1.0	7.0	8.3	3.7	.7	-2.1	18.0
1967 Dollars 1/	6.7	-1.6	5.5	7.5	3.7	.3	-1.2	12.8
Nondefense Capital Goods								
Current Dollars	1.9	.6	1.6	9.3	1.2	1.5	13.2	24.9
1967 Dollars 1/	.7	-1.0	.1	8.1	.9	1.0	12.7	18.3
Construction Contracts for Commercial and Manufacturing Buildings 2/								
Total	-4.1	.6	-8.6	24.1	1.3	5.6	-2.5	7.1
Commercial	-5.9	7.3	.9	3.0	4.9	2.9	3.3	15.6
Manufacturing	-4.0	11.2	-13.4	25.9	-6.8	5.6	-10.8	4.6
Contracts and Orders for Plant & Equip. 3/								
Current Dollars	.5	-7.3	11.7	3.1	-3.7	15.3	2.9	20.9
1967 Dollars 4/	-.1	-7.8	8.9	2.5	-3.6	12.6	3.6	14.6

1/ FR deflation by appropriate WPI.

2/ Floor space data, millions of square feet; components are seasonally adjusted by FR and may not add to total which is seasonally adjusted by Census.

3/ Contracts and orders for plant and equipment (BCD series No. 10) is constructed by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g. electric utilities, pipelines, etc.).

4/ An experimental BCD series.

1974. Since appropriations lead expenditures by an average of four quarters, these recent increases reinforce the orders figures in suggesting a strengthening of capital spending during 1977.

After rising for two months, private housing starts fell by 9 per cent to a seasonally adjusted annual rate of 1.39 million units in July. Virtually all of the decline occured in the depressed multi-family sector. These starts fell from a rate of 378,000 in June to a surprisingly low rate of 259,000 in July, the first decline in 5 months. Single-family starts declined slightly in July, but at an annual rate of nearly 1.13 million units the level remains quite high by historical standards. In contrast to starts, residential building permits rose in July, reaching their highest rate in nearly 2-1/2 years.

Despite the July decline, a number of factors continue to indicate gains in housing starts over the near term. Outstanding mortgage commitments at S&L's increased to a near record level in July; and with savings deposit flows continuing exceptionally high in August, commitment activity has probably remained very strong in recent weeks. Moreover, throughout the summer months, mortgage terms have remained fairly stable, and, on average, sales of both new and existing homes have been relatively strong. Over the longer term, two recent government actions could also provide some support for housing production. The Administration announced that it plans to release the remaining $2 billion in GNMA funding to purchase below-market interest rate mortgages of new and rehabilitated multi-family structures. In addition, the

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

	QIII	QIV	QI	QII(r)	June(r)	July(p)	Per cent change in July from: Month ago	Year ago
All units								
Permits	1.03	1.11	1.17	1.13	1.15	1.22	+ 6	+20
Starts	1.26	1.37	1.40	1.44	1.53	1.39	- 9	+15
Under construction 1/	1.03	1.04	1.06	1.07	1.07	n.a.	+ 1*	+ 2*
Completions	1.28	1.28	1.30	1.32	1.34	n.a.	- 1*	+12*
Single-family								
Permits	.73	.81	.87	.81	.83	.88	+ 6	+25
Starts	.95	1.03	1.12	1.09	1.15	1.13	- 2	+23
Under construction 1/	.53	.56	.59	.61	.61	n.a.	+ 2*	+19*
Completions	.91	.91	.97	.98	1.03	n.a.	+11*	+27*
Multifamily								
Permits	.30	.30	.30	.31	.32	.34	+ 7	+ 9
Starts	.31	.33	.28	.35	.38	.26	-31	-11
Under construction 1/	.51	.48	.46	.46	.46	n.a.	+ 1*	-14*
Completions	.37	.37	.33	.34	.32	n.a.	-26*	-20*
MEMO:								
Mobile home shipments	.22	.23	.27	.24	.23	.23	- 2	+ 7

* Per cent changes in June.
1/ Seasonally adjusted, end of period.

NOTES: Per cent changes based on unrounded data. Change of less than 1 per cent indicated by --.

President signed the Housing Authorization Act of 1976 which revised and extended authorization for several FHA subsidy programs.

Indicators of state and local government spending continue to show a mixed pattern of growth. Employment is estimated to have increased by just over 50,000 in August, following a revised July increase of over 70,000. Conversely, the value of construction put-in-place series, which is volatile, fell by $1.5 billion in July based on preliminary estimates. Thus, current-dollar capital spending by state and local units continues to run well below the high levels of late 1975. Capital spending is likely to pick up later this year, however, as funds authorized under the Local Public Works Employment Act begin to flow in the fall.

Recent data on wages, costs and prices remain generally favorable. The rate of wage change over the first 8 months of this year has moderated considerably from the extremely rapid pace of 1974 and 1975. Since December 1975, the average hourly earnings index for private nonfarm workers has increased at an annual rate of 6.7 per cent compared with 7.9 per cent and 9.4 per cent for all of 1975 and 1974 respectively. This slowing has been evident in all major industries. In August, the earnings index rose at a 5.5 per cent annual rate--down from 7.2 per cent in July.

The United Auto Workers union struck Ford at midnight September 14, when the existing contract expired. There do not appear to be intractable issues separating the industry and the union partly because auto workers are covered by a cost-of-living clause which has protected real wages to a considerable extent. Thus a long strike is considered unlikely.

HOURLY EARNINGS INDEX*
(Per cent change from preceding period, compound annual rate; based on seasonally adjusted data)

	1975 QIII	1975 QIV	1976 QI	1976 QII	Aug. 75- Aug. 76	Jan. 76- Aug. 76	July 76 1/ Aug. 76
Private nonfarm	8.6	8.3	6.4	6.6	6.8	6.7	5.5
Construction	6.6	4.4	4.9	8.0	5.8	6.7	-9.2
Manufacturing	8.6	8.3	6.8	6.5	7.5	7.3	7.0
Trade	8.7	6.4	4.8	5.6	4.9	4.9	.8
Services	7.3	10.6	8.3	6.5	7.9	6.2	14.2
Transportation and Public Utilities	12.9	11.7	8.1	8.7	7.4	7.1	3.4

* Excludes the effects of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

1/ Monthly change at an annual rate, not compounded.

Nonfarm business sector productivity is indicated to have increased at an annual rate of 5.6 per cent in the second quarter, about the same as in the previous quarter. With compensation per hour of all persons in the nonfarm business sector rising 9.1 per cent (annual rate) in the second quarter, unit labor costs advanced at a 3.3 per cent rate--about the same as the first quarter rise. Over the past year, unit labor costs have also risen 3.3 per cent--down sharply from the rate of increase in 1974 and early 1975.

Wholesale prices declined 0.1 per cent (seasonally adjusted) from July to August as lower prices for farm and food products more than offset a further rise in prices of industrial commodities. The index of farm and food products fell 2.9 per cent with lower prices for grains and oilseeds (mainly soybeans), livestock and meats, manufactured animal feeds, sugar, and cotton accounting for most of the decline. The index of industrial commodities rose 0.7 per cent, the third consecutive large monthly increase, as price increases were widespread. Excluding the energy group, industrial commodities rose 0.5 per cent, comparable to the rate of increase since the beginning of the year.

On a stage-of-processing basis, crude materials prices were about unchanged in August--following two large increases in June and July--while intermediate materials (excluding foods) were up sharply. Consumer finished goods other than foods were up 0.6 per cent, in line with increases in June and July, but the rise in the index of

PRODUCTIVITY AND COSTS
(Per cent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1975		1976		75:QII to
	QIII	QIV	QI	QII	76:QII
Output per hour					
Private Business*	8.5	-1.6	7.5	4.0	4.5
Nonfarm Business*	9.3	-2.2	5.8	5.6 p	4.5 p
Manufacturing	21.1	2.7	5.1	8.3	9.1
Nonfinancial Corporations**	8.5	-1.3	4.4	5.2 p	4.1 p
Compensation per hour					
Private Business*	5.2	8.3	10.9	7.7	8.0
Nonfarm Business	6.8	6.6	9.5	9.1 p	8.0 p
Manufacturing	3.8	6.5	9.7	10.0	7.5
Nonfinancial Corporations**	5.9	7.2	8.9	8.6 p	7.6 p
Unit labor costs					
Private Business*	-3.0	10.1	3.2	3.6	3.4
Nonfarm Business*	-2.2	9.0	3.5	3.3 p	3.3 p
Manufacturing	-14.3	3.7	4.3	1.6	-1.5
Nonfinancial Corporations**	-2.4	8.6	4.3	3.2 p	3.3 p

* These measures replace the measures for the total private economy and the nonfarm sector. The new series exclude from coverage households and institutions as well as omitting output imputed to owner-occupied dwellings.

** Data in the nonfinancial corporate sector are based on all-employees hours rather than all persons hours.

producers equipment slowed substantially in August from the pace earlier in the year. Since the pricing date of the August WPI, the steel industry posted an increase of 4.5 per cent, effective October 1, on flat-rolled steel products, but withdrew the increase as the existence of selected discounting in the industry underlined the weakness in the market and its inability to support the increase.

Consumer prices rose 0.5 per cent in July, similar to the pace in June and during the 12-month period ending in July. As in June, food prices rose little but energy prices were up sharply. Excluding food and energy items, the CPI rose 0.7 per cent in July, up from the second quarter rate of increase. Spurred on by large increases for petroleum products, used cars, houses and apparel, prices of nonfood commodities rose 0.6 per cent in July. Service costs, boosted by another large increase in gas and electricity rates, rose at a pace about equal to that in nonfood commodities.

NOTE: Fiscal table and discussion of Federal Sector outlook has been shifted to Part I of the Greenbook.

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to July 76
All items	100.0	7.0	2.9	6.1	5.6
Food	24.7	6.5	-7.9	7.2	1.3
Commodities (nonfood)	38.7	6.2	2.9	5.6	6.9
Services	36.6	8.1	10.6	6.2	7.3
Memo:					
All items less food and energy 2/3/	68.1	6.7	7.7	5.5	8.0
Petroleum products 2/	4.5	10.1	-15.7	9.3	14.8
Gas and electricity	2.7	14.2	6.4	12.1	17.3

1/ Not compounded for one-month changes.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to July 76	July 76 to Aug. 76
All commodities	100.0	4.2	-1.8	6.6	3.9	-1.3
Farm and food products	22.8	-0.3	-15.8	18.0	-11.5	-34.9
Industrial commodities	77.2	6.0	3.2	3.6	8.6	7.9
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	6.9	5.5
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	8.8	8.1
Finished goods						
Consumer nonfoods	18.7	6.7	0.5	2.3	9.0	6.7
Producer goods	11.9	8.2	6.8	3.3	5.6	2.1
Memo:						
Consumer foods	11.1	5.5	-20.5	16.8	-20.9	-26.6

1/ Not compounded for one-month changes.
2/ Estimated series.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
<u>Monetary and credit aggregates</u>					SAAR (per cent)	
Total reserves		August	34.57	6.2	5.0	0.7
Nonborrowed reserves		August	34.47	7.4	5.2	1.1
Money supply						
M1		August	306.2	5.5	3.8	4.4
M2		August	713.3	9.7	9.2	9.6
M3		August	1184.3	12.7	11.4	11.7
Time and savings deposits (Less CDs)		August	407.1	12.8	13.4	13.9
CDs (dollar change in billions)		August	64.4	-5.2	-3.8	-14.4
Savings flows (S&Ls + MSBs)		August	471.0	17.3	14.7	14.9
Bank credit (end of month)		August	752.7	8.2	5.8	5.4
<u>Market yields and stock prices</u>					Percentage or index points	
Federal funds	wk. endg.	9/8/76	5.25	--	-.19	-.90
easury bill (90 day)	"	9/8/76	5.10	-.08	-.36	-1.29
mmercial paper (90-119 day)	"	9/8/76	5.38	--	-.50	-1.37
ew utility issue Aaa	"	9/10/76	8.28	-.21	-.43	-1.36
Municipal bonds (Bond Buyer)	1 day	9/9/76	6.52	-.08	-.34	-.88
FNMA auction yield	(FHA/VA)	9/7/76	8.92	-.09	-.28	-.78
Dividends/price ratio (Common stocks)	wk. endg.	9/8/76	3.71	-.02	-.12	-.71
NYSE index (12/31/65=50)	end of day	9/13/76	55.70	.01	1.43	11.44

<u>Credit demands</u>		Net change or gross offerings: Current month 1976	Current month 1975	Year to Date 1976	Year to Date 1975
Business loans at commercial banks	August	-.3	-.2	-3.8	-6.7
Consumer instalment credit outstanding	July	1.3	1.3	9.2	1.4
Mortgage debt outst. (major holders)	June	4.5	3.0	25.9	17.1
Corporate bonds (public offerings)	August	1.4e	1.4	17.7e	25.4
Municipal long-term bonds (gross offerings)	August	2.6e	2.8	22.5e	21.6
Federally sponsored Agcy. (net borrowing)	August	.8	--	2.2	.4
U.S. Treasury (net cash borrowing)	September	3.2	8.5	51.1	59.6
Total of above credits		13.5	16.8	124.8	118.8

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Although the public sectors continued to raise a substantial volume of funds in financial markets in August, aggregate business credit demands weakened. After strengthening in July, business loans at banks declined and outstanding nonfinancial commercial paper increased only slightly. In addition, the apparent slower pace of economic expansion and improved liquidity positions of many firms, along with normal seasonal influences, were reflected in an appreciable reduction in corporate bond and equity offerings in July and August relative to the first half of the year.

Available evidence suggests, however, that credit flows in mortgage markets remained strong, as sizable deposit inflows have enabled thrift institutions to make record amounts of home mortgages without straining liquidity positions. Also, both the Treasury and municipal markets continued to absorb seasonally large volumes of new issues in August.

Evidence of a reduced pace for the economic expansion, a moderate rate of growth in the monetary aggregates, and a light forward calendar of Treasury and corporate issues have contributed to expectations of somewhat easier conditions in financial markets. As a result, most interest rates have edged lower since the August FOMC meeting. In short-term credit markets, Treasury bill and private rates are lower by 10 basis points or less, while long-term rates have fallen as much as 20 basis points and are now close to or below their previous cyclical lows.

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Aug. '75 FOMC Aug. 19	June'76 FOMC June 22	July'76 FOMC July 20	Aug.'76 FOMC Aug. 17	Aug. 31	Sept. 7	Sept. 14
Short-term							
Federal funds 1/	6.15	5.48	5.30	5.29	5.28	5.25	5.23 5/
Treasury bills							
3-month	6.47	5.38	5.24	5.15	5.09	5.09	5.12
6-month	7.00	5.75	5.57	5.40	5.35	5.30	5.34
1-year	7.22	6.08	5.85	5.62	5.55	5.51	5.57
Commercial paper							
1-month	6.38	5.63	5.25	5.13	5.13	5.13	5.13
3-month	6.63	5.88	5.50	5.38	5.38	5.38	5.38
Large neg. CD's 2/							
3-months	6.85	5.88	5.45	5.30	5.30	5.25	5.30
6-months	7.70	6.15	5.80	5.65	5.63	5.63	5.63
Federal agencies							
1-year	7.99	6.57	6.43	6.09	6.11	6.06p	n.a.
Bank prime rate	7.75	7.25	7.25	7.00	7.00	7.00	7.00
Long-term							
Corporate 1/							
New AAA 1/	9.43	8.69	8.53	8.49	8.47	8.38	8.28p
Recently offered 3/	9.49	8.70	8.55	8.49	8.44	8.38	8.35p
Municipal (Bond Buyer) 4/	7.17	6.85	6.78	6.60	6.58	6.52	6.52
U.S. Treasury (20-year constant maturity)	8.53	7.99	8.05	7.88	7.81	7.81	7.82p
Stock prices							
Dow-Jones Industrial	808.50	997.63	988.29	999.34	973.74	996.59	978.64
N.Y.S.E. Composite	45.20	55.14	55.42	55.98	54.92	56.03	55.54
AMEX	85.00	104.70	104.42	103.74	101.98	102.87	101.33
Keefe Bank Stock	514	626	617	609	587	586	598

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending Sept. 15.
n.a.--not available.
--preliminary.

Monetary aggregates and bank credit. M_1 expanded in August at a seasonally adjusted annual rate of 5.5 per cent, somewhat below the pace in July. Although demand deposits increased sharply during the first half of the month--prior to the payment date for the recently offered Treasury coupon issues--this increase gradually dissipated through the remainder of the month.

Growth in broader measures of the money stock--M_2 and M_3--remained strong in August, though somewhat below the July pace. The slackening in M_2 and M_3 growth reflected in part the slower expansion in M_1. In addition, net expansion in the interest-bearing components of M_2 moderated as growth in time deposits fell sharply.[1/] In contrast, savings deposit inflows at banks and deposit flows to savings and loan associations and mutual savings banks accelerated in August for the second consecutive month. The strong expansion in such deposits occurred despite the reportedly heavy participation by small investors in the mid-August Treasury financing.

Over most of the last nine months, growth in savings and small denomination time deposits at both commercial banks and other depositary institutions has been stimulated by payment of deposit rates which have been attractive relative to rates available on alter-

1/ This decline reflected a drop in large non-negotiable CD's and in negotiable CD's at banks other than weekly reporters. These large time deposit components of M_2 normally move in concert with the large negotiable CD's at weekly reporting banks, which declined appreciably in August.

MONETARY AGGREGATES 1/
(Seasonally adjusted changes)

	1975	1976					Twelve months ending
	HII	HI	QI	QII	July	Aug p.	Aug. 1976 p.
			Per cent at annual rates				
M_1 (currency plus demand deposits)	4.7	5.5	2.6	8.4	6.7	5.5	4.4
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.3	10.8	10.1	11.3	12.5	9.7	9.6
M_3 (M_2 plus deposits at thrift institutions)	11.5	12.1	11.4	12.4	13.1	12.7	11.7
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	3.0	-2.2	3.9
Total time & savings deposits at CBs	7.3	7.1	7.8	6.3	11.5	-2.3	8.1
a. Other than large negotiable CDs	11.4	15.1	15.9	13.7	16.6	12.8	13.9
1. Savings deposits	17.0	25.8	28.3	21.7	11.4	21.9	20.8
2. Time deposits	7.4	6.9	6.7	7.0	20.9	5.4	8.8
Deposits at nonbank thrift institutions							
a. Savings and loans	18.2	15.5	15.0	15.4	15.3	19.4	16.4
b. Mutual savings banks	11.9	9.7	9.1	10.1	10.5	13.5	10.2
c. Credit unions	18.6	16.6	16.8	15.8	15.3	11.3e	17.2e
			Billions of dollars (Based on seasonally adjusted monthly data, not annualized)				
Memoranda:							
a. Total US Govt. deposits	0.3	0.4	1.1	-0.4	-0.8	4.8	0.9
b. Negotiable CDs	-0.2	-2.1	-3.3	-0.8	-1.0	-5.2	-1.2
c. Nondeposit sources of funds	0.2	- -	-0.1	0.1	0.4	0.1	0.2

1/ Half-year and quarterly growth rates are based on quarterly average data.
p Preliminary
e Estimated

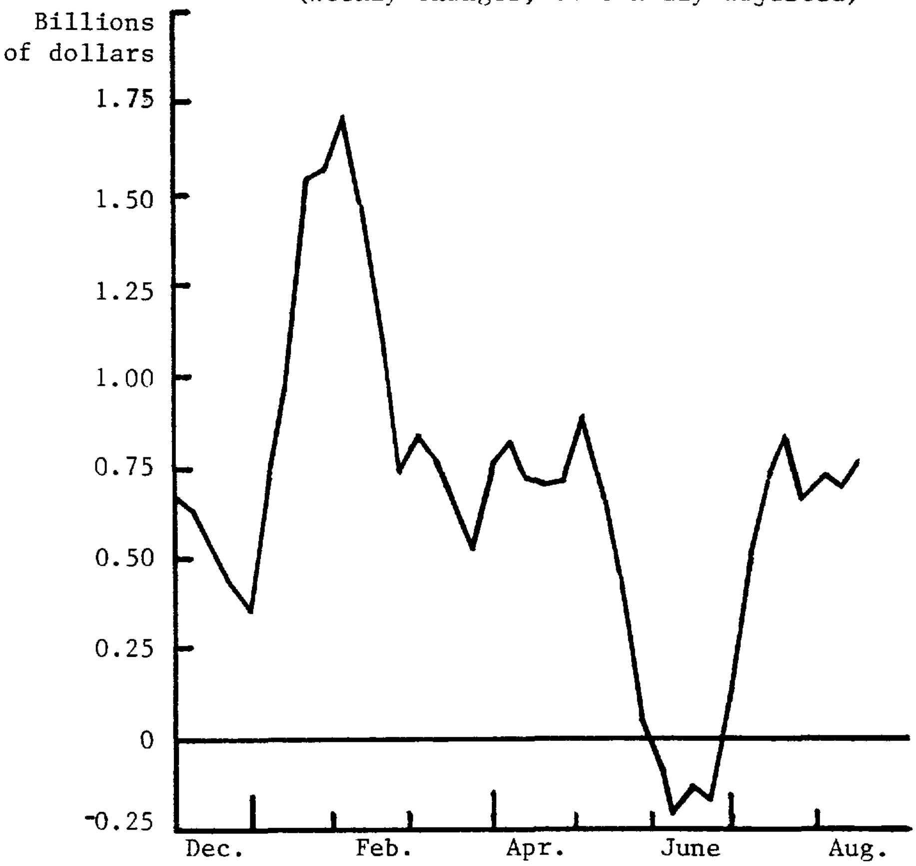
native market instruments--such as Treasury bills and large denomination time deposits. With rates on 90-day Treasury bills in the 4-3/4 to 5-1/2 per cent range, savings deposits at commercial banks, for example, have fluctuated about a trend annual growth rate of 20 to 25 per cent since December. During this period, net inflows of these deposits have averaged about $700 million per week and have deviated significantly from this pattern only twice, as shown in the Chart. In January through early February, savings inflows surged when the Treasury bill rate fell below 5 per cent for the first time in over three years, and in late May and June, net inflows fell sharply when bill rates began to rise above Regulation Q ceilings. Since early June, 90-day bill rates have gradually moved down, and in July--with bill rates just above deposit rate ceilings--strong savings inflows resumed. As earlier in the year, some of the recent strength in savings deposits at commercial banks probably reflects yield-induced shifts to these deposits from commercial bank large denomination time deposits and other market instruments.

The contraction in the volume of negotiable CD's at weekly reporting banks continued in August with an unusually sharp decline of more than $5 billion. The volume of outstanding CD's is now well below the level prior to the June window-dressing buildup and indeed is at the lowest level since December 1973.

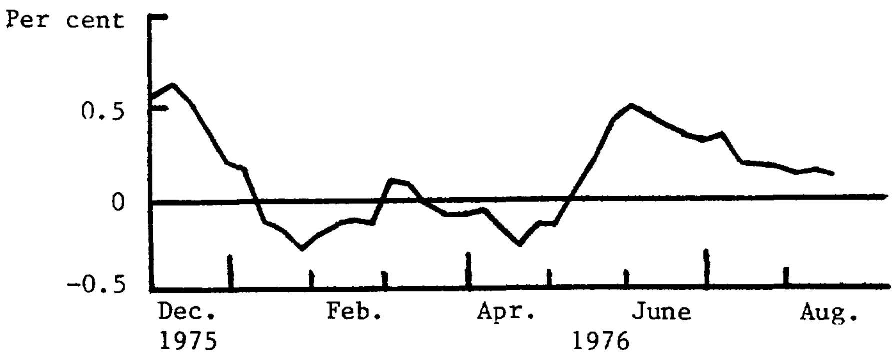
Total bank credit increased at an 8 per cent annual rate in August (last-Wednesday-of-the-month series), slightly above the

Chart 1
SAVINGS DEPOSITS AT COMMERCIAL BANKS AND
RELATIVE INTEREST RATES

Savings Deposits at Commercial Banks
(Weekly changes, seasonally adjusted) 1/



Rate Differential
(90-day Treasury bill less commercial bank savings ceiling 2/)



1/ 3-week centered moving average of weekly changes.
2/ Treasury bill rate on a discount basis.

July pace. Much of this expansion was associated with Treasury financing operations. Net acquisitions of Treasury securities by banks--primarily in coupon form--totaled $2.3 billion on a seasonally adjusted basis. In addition, banks loaned $1.6 billion to security dealers which--along with a modest rise in real estate loans--accounted for a large share of the 6 per cent growth rate in total bank loans during the month.

Business credit. After increasing modestly in July, outstanding business loans at banks declined again in August. Outstanding nonfinancial commercial paper increased by only $100 million from the end of July to the end of August, although the spread between the prime rate and the paper rate remained strongly in favor of borrowing in the commercial paper market. Thus, total short-term business credit declined at about a 1 per cent seasonally adjusted annual rate in August.

At times in recent months, short-term credit demands have shown some signs of strengthening. Business loans this summer have not been as weak as earlier in the year or during most of last year when such loans contracted sharply, and the volume of outstanding commercial paper has increased, albeit erratically, in most months since the beginning of the year. Nevertheless, the August volume of outstanding short-term business credit remained $600 million below the

COMMERCIAL BANK CREDIT 1/
(Seasonally adjusted changes at annual percentage rates)

	1975	1976					
	HII	HI	QI	QII	June	July	Aug.
Total loans & investments 2/	4.5	4.9	5.5	4.3	2.1	6.9	8.2
Treasury securities	22.1	36.8	44.3	26.3	12.9	-16.6	29.8
Other securities	2.9	-1.0	-4.1	2.2	.8	13.3	3.3
Total loans 2/	2.3	1.6	2.1	1.0	.5	9.5	5.7
Business loans 2/	-1.2	-4.9	-7.4	-2.2	-2.8	5.5	-2.1
Real estate loans	4.3	8.0	8.9	6.9	5.1	7.7	1.7
Consumer loans	9.3	4.9	4.0	5.7	3.9	13.0	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-3.1	-1.7	-5.3	1.9	2.6	5.8r	-1.3

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and non-consolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
n.a.--Not available
r-Revised

level at the beginning of this year and $13 billion below its peak in January 1975.

After an extended period of heavy financing in long-term markets, corporations slowed their debt and equity issuance during the summer months. Gross issues of publicly offered corporate bonds totaled $1.3 billion in July and $1.4 billion in August, after averaging $2.5 billion per month during the first half of the year. With September's calendar slated at $1.5 billion, total public offerings in the third quarter will be the lightest in three years.

Although a portion of the recent decline in public bond offerings can be attributed to normal seasonal influences, seasonally adjusted bond issuance by domestic corporations is still about 20 per cent below the pace of offerings in the first half of the year. A number of prime-rated borrowers accelerated their borrowing plans earlier in the year when a more robust recovery and higher interest rates were widely forecasted. But more recently, with the pace of economic activity remaining moderate, corporations have not been inclined to seek aggressively long-term financing in the public market. On the other hand, the recent slowdown in privately placed corporate bond financing appears to be almost entirely seasonal, and many lower-rated corporations are continuing to obtain financing through this channel.

SECURITY OFFERINGS
(Monthly totals or monthly averages, in millions of dollars, not seasonally adjusted)

	1975 Year	QI	QII e/	July e/	Aug. e/	Sept. f/	Oct. f/
			Gross offerings				
Corporate securities--							
Total	4,469	4,615	4,621	2,500	2,800	3,200	4,300
Publicly offered bonds	2,717	2,523	2,473	1,300	1,400	1,500	2,200
By quality 1/							
Aaa and Aa	1,422	1,559	1,148	275	625	--	--
Less than Aa 2/	1,295	964	1,325	1,025	775	--	--
By type of borrower							
Utility	925	630	780	525	400	--	--
Industrial	1,432	1,210	880	500	570	--	--
Other	360	683	813	275	430	--	--
Privately placed bonds	847	911	1,113	600	700	900	900
Stocks	905	1,181	1,035	600	700	800	1,200
By type of issuer							
Manufacturing	123	303	325	150	325	--	--
Utility and transp.	598	750	640	325	275	--	--
Other	184	128	70	125	100	--	--
Foreign securities 3/	451	447	614	500	367	450	500
State and local government securities							
Long-term	2,544	2,798	2,973	2,572	2,600	2,600	2,800
Short-term	2,420	1,671	2,625	1,113	1,600	2,000	1,500
			Net offerings				
U.S. Treasury	7,564	7,897	2,359	2,931	8,722	2,819	5,500
Sponsored Federal agencies	187	414	0	136	630	379	695

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes only publicly offered issues of marketable securities.

Equity financings by corporations also remained light during August, although most of the decline in the pace of new offerings was seasonal. Manufacturing concerns continued to issue a large volume of new equity securities, but public utility and transportation companies reduced their stock issuance to less than half of the pace recorded in the first six months of the year. Although public offerings by new entrants to equity markets have shown a modest increase this year over the pace of offerings in 1975, a number of these issues have displayed poor price performance in secondary market trading, and underwriters report that no major recovery in such offerings seems likely in the near future.

Corporate bond yields have moved lower since the August FOMC meeting, and most yield series are now at their lowest levels in more than 2 years. For example, the Board's measure of new, Aaa-rated utility bond yields has declined to 8.28 per cent, its lowest level since February 1974 and almost 70 basis points below its recent high in late May of this year. The light supply of new issues in both July and August also contributed to higher prices for most seasoned bond issues, and yield series for seasoned issues are approximately 20 to 40 basis points below their highs earlier in the year.

Other securities markets. Conditions in the State and local securities market have continued to improve since the last FOMC meeting. After declining about 10 basis points further, the Bond-Buyer Index now stands at 6.52 per cent--its lowest level since February 1975.

In light of the recent lower yields, some issuers appear to have accelerated offerings and the tax-exempt calendar continues to be heavier than is normal for this time of year. In August, as in July, gross offerings of long-term municipal debt amounted to $2.6 billion, and a similar volume is projected for September.

Thus far, the supply of municipal bonds has been readily absorbed by the market. Fire and casualty insurance companies, experiencing substantially improved profit flows, are reported to have been active purchasers of municipals, and there also have been reports of increased activity by smaller commercial banks and bond funds.

In the Treasury securities market, $3.2 billion of new money has been raised since the August FOMC meeting--by increasing the size of the August 2-year note $1.1 billion and by auctioning $2.1 billion of 4-year notes. In its financings, the Treasury continues to emphasize debt lengthening. Of the projected $17.5 billion of net borrowing from the public in the third quarter, only $200 million will be raised through increases in bills outstanding.

The Treasury is expected to raise only a small amount--approximately $800 million--of additional new money in the current quarter. The cash balance is running higher than had been earlier anticipated and is now projected to be somewhat above $15 billion at the end of September. Although some financing needs in the fourth quarter probably will be met by running down the cash balance, net borrowing is still projected at around $21 billion.

<u>Mortgage and consumer credit markets</u>. The volume of funds raised in the mortgage markets remained large in August with most of the activity still concentrated in the home mortgage area. A large amount of the increase in home mortgage debt in recent months apparently has been associated with transactions on existing homes, while the increase in debt on new homes has been moderate.

Most new residential mortgages are being acquired by the S&L's or are flowing into pools backing GNMA--guaranteed securities.[1/] Large deposit inflows have permitted S&L's to maintain strong mortgage lending without reducing liquidity or resorting to substantial new borrowing. Moreover, mortgage commitments outstanding at the S&L's continued to increase through July (latest data available), reaching a near record $20.9 billion.

Average rates on new commitments for home mortgages in the primary market have changed little since the last FOMC meeting, and remain about 25 basis points above the cyclical lows reached this April. Yields in the more sensitive secondary mortgage market have declined somewhat further since mid-August, reflecting in part improvements in the bond market.

1/ S&L's have been accounting for about 70 per cent of the net increase in residential mortgage debt in recent months, and in addition, these institutions have been acquiring nearly one-fifth of new issues of GNMA securities. Commercial and mutual savings banks combined have been accounting for only about 10 per cent of the increase in residential mortgage debt, while life insurance companies have been reducing their holdings.

INTEREST RATES AND SUPPLY OF FUNDS FOR
CONVENTIONAL HOME MORTGAGES
AT SELECTED S&Ls

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Per cent of S&L with funds in short supply
1975--High	9.59	--	66
Low	8.80	--	7
1976--High	9.10	--	10
Low	8.70	--	0
Aug. 6	9.00	+ 2	8
13	9.00	0	8
20	9.00	0	7
27	9.00	0	7
Sept. 3	9.00	0	9
10	8.97	-3	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1975--High	100	51	10.02	643	366	9.95	9.10
Low	11	9	8.96	25	18	8.78	7.99
1976--High	162	115	9.31	634	321	9.20	8.44
Low	33	23	9.00	58	32	8.83	8.00
Aug. 2							8.37
9	137	93	9.17	190	107	9.01	8.37
16							8.27
23	162	115	9.14	171	107	8.97	8.25
30							8.25
Sept. 7	171	118	9.13	122	69	8.92	8.13
13							8.13

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing Data reflect the average accepted bid yield for home mortgages, assuming a prepayme period of 12 years for 30-year loans, without special adjustment for FNMA commitmen fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortg amounts offered by bidders relate to total bids received.

2/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

Consumer instalment credit outstanding increased in July at an annual rate of 9.4 per cent, slightly below the average over the first six months. Almost half of the July increase reflected credit growth at commercial banks, somewhat above their normal share of the net change in outstandings. Indications are that growth in total consumer instalment credit may have accelerated somewhat in August, along with the pick up in sales of consumer durables.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976[1/] QI	QII	June	July
Total						
Change in outstandings						
$ Billions	9.0	6.8	14.8	16.9	16.0	15.6
Per cent	6.1	4.4	9.1	10.5	9.7	9.4
Bank share (%)	44.4	41.7	31.0	40.1	30.8	47.5
Extensions						
$ Billions	160.0	163.5	182.8	182.5	187.1	182.9
Bank share (%)	45.4	47.2	46.9	47.1	46.7	48.3
Liquidations ($ billions)	151.1	156.6	168.0	165.6	171.1	167.2
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.3	7.6	6.3	6.7
Per cent	0.7	5.2	13.7	14.2	11.4	11.6
Extensions						
$ Billions	43.2	48.1	54.9	54.6	55.2	53.7
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 2/	8.8	14.0	20.0	22.4	--	--
Finance companies	8.6	23.5	29.5	32.3	32.7	35.0
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.17	11.03	11.02	11.06
Finance companies	12.61	13.11	13.15	13.15	13.17	13.16

1/ Quarterly and monthly dollar figures and related percentage changes are SAAR.
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

U.S. International Transactions
(In millions of dollars, seasonally adjusted[1/]) September 15, 1976

IV - T - 1

	1975		1976			
	Year	Q4	Q1	Q2	June	July
1. Merchandise exports	107,072	27,655	26,939	28,467	9,792	9,989
2. Merchandise imports	98,126	25,448	28,492	29,700	10,513	11,063
3. Trade Balance	8,946	2,207	-1,553	-1,233	-721	-1,074
4. Bank-reported private capital flows	-12,585	-4,585	-2,833	-1,080	-3,200	475
5. Claims on foreigners (increase -)	-13,238	-5,287	-3,714	-4,665	-135	-1,612
6. Long-term	-2,351	-943	-245	-338	114	-225
7. Short-term	-10,887	-4,344	-3,469	-4,327	-249	-1,387
8. (of which on commercial banks in offshore centers 2/)	(-7,212)	(-2,206)	(-3,575)	(-2,400)	(-10)	(-1,365)
9. Liabilities to foreigners (increase +)	653	702	881	3,585	-3,065	2,087
10. Long-term	-355	91	166	23	108	66
11. Short-term	1,008	611	715	3,562	-3,173	2,021
12. to commercial banks abroad	-605	-992	1,034	2,232	-3,798	2,365
13. (of which to commercial banks in offshore centers 3/)	(1,798)	(709)	(-230)	(982)	(-2,989)	(1,959)
14. to other private foreigners	1,549	758	146	475	133	298
15. to int'l and regional organizations	64	845	-465	855	492	-642
16. Foreign private net purchases (+) of U.S. Treasury securities	2,649	162	451	-587	-185	1,406
17. Other private securities transactions (net)	-3,479	-1,144	-1,481	-1,257	-555	-1,794
18. Foreign net purchases (+) of U.S. corp. securities	2,727	1,217	1,026	191	20	67
19. (of which stocks)	(3,205)	(944)	(942)	(188)	(-12)	(16)
20. U.S. net purchases (-) of foreign securities	-6,206	-2,361	-2,507	-1,448	-575	-1,861
21. (new foreign issues of bonds and notes)	(-7,168)	(-2,573)	(-2,824)	(-1,600)	(-565)	(-2,015)
22. Change in foreign official assets in the U.S. 5/	5,470	2,526	2,466	3,168	-225	878
23. OPEC countries (increase +) 5/	5,940	1,713	2,231	2,737	57	636
24. (of which U.S. corporate stocks)	(1,643)	(638)	(555)	(591)	(267)	(216
25. Other countries (increase +)	-470	813	235	431	-282	242
26. Change in U.S. reserve assets (increase -)	-607	89	-773	-1,578	-499	236
27. Other transactions and statistical discrepancy (net payments (-))	-394	745	3,723	2,567	5,385	-127
28. Other current account items	2,963	956	1,460			
29. Military transactions, net 4/	-1,223	-160	-79			
30. Receipt of income on U.S. assets abroad	18,219	4,709	5,419			
31. Payment of income on foreign assets in U.S.	-12,212	-3,039	-3,290			
32. Other services, net	2,163	455	441			
33. Remittances and pensions	-1,727	-433	-480			
34. U.S. Gov't grants 4/	-2,257	-576	-551			
35. Other capital account items	-7,128	-1,908	-1,746			
36. U.S. Govt. capital, net claims[4/] (increase -)	-2,027	-523	763			
37. U.S. direct investment abroad (increase -)	-6,307	-1,694	-1,580			
38. Foreign direct investment in U.S. (increase +)	2,437	1,229	-689			
39. Nonbank-reported capital, net claims (increase -)	-1,231	-920	-240			
40. Statistical discrepancy	3,771	1,697	4,009			
MEMO:						
41. Current account balance	11,908	3,163	-93	n.a.	n.a.	n.a.
42. Official settlements balance	-4,863	-2,615	-1,693	-1,590	724	-1,114
43. O/S bal. excluding OPEC	1,077	-902	538	1,147	781	-478

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda)

3/ Represents mainly liabilities of U.S. banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes certain special transactions with Israel which are recorded in Department of Commerce statistics as offsetting shifts between U.S. Govt. capital and both military transactions and U.S. Govt grants.

5/ Excludes prepayments for military purchases.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the five-week period since the last Green Book the Mexican peso has depreciated more than 35 per cent; downward pressure on the pound has intensified; and strains within the European snake have at least temporarily abated. The trade-weighted value of the dollar declined 3/4 per cent during this period, but still remains at roughly the same level it has held since last April.

On September 1 the Mexican peso, after being pegged to the U.S. dollar at the same rate for 22 years, was allowed to float. The peso immediately depreciated 25-30 per cent, and sub- sequently it moved down still further -- to a 39 per cent effective depreciation. On September 12 Finance Minister Beteta announced that for as long as possible the Mexican central bank would hold the peso at a rate equivalent to a 37 per cent depreciation, but that this did not represent a return to a formal fixed parity. The Mexican government evidently took this step (a) to end exchange rate uncertainty that was threatening to trigger a general strike, and (b) to encourage capital reflows into Mexico to improve its reserve position. The gross official and government guaranteed external debt is believed to total about $15 billion,

. In conjunction with the depre- ciation the Mexican government also recently ended its export subsidy program, lowered tariffs substantially, and imposed new taxes on both exports and luxury imports.

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The selling pressure on the pound reached a peak on September 9, when a strike decision by the British Seaman's Union was interpreted as jeopardizing the success of the government's Phase II incomes policy.

. Since then sterling has fluctuated around the $1.74 level, despite a 1-1/2 percentage point hike in the Minimum Lending Rate to 13 per cent, a two-week postponement of the Seaman's strike, and a sharp contraction of Britain's trade deficit during August.

Strains within the European joint float have at least temporarily abated in recent weeks, perhaps because of higher interest rates in the weaker currency countries. the Danish, Swedish, Norwegian, and Belgian currencies remain near their lower intervention limits with respect to the mark, . And the Netherlands guilder has rebounded sharply as Dutch interest rates have risen more than those of other snake countries.

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The Japanese yen continued its upward trend during the last five weeks, rising 2 per cent against the dollar,

. So far this year the yen as appreciated about 6 per cent

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. The System purchased only $10 million equivalent of Belgian francs and $2 million equivalent of marks.

The price of gold has fluctuated considerably during the last five weeks in reaction to changing expectations concerning the outcome of the third IMF auction on September 15 and the possibility that the pace of future IMF gold sales may be slowed. Gold initially dropped about $10 per ounce to the $104 level, then recovered to about $116, before falling back to $109.50 on September 15.

<u>International capital markets</u>. Total borrowing in major international capital markets declined to $14.1 billion in the second quarter from $16.1 billion in the first quarter, but was still well above earlier levels. The decrease in the second quarter reflected a fall in the volume of Canadian bond issues in the United States from an exceptionally high first quarter rate, and lower Euro-bond issues. Borrowing in the medium-term Euro-credit market showed increases in the second quarter for all major categories of countries, but there were declines in loans to some developing countries that in the past have been especially large borrowers in that market.

Borrowing in International Capital Markets
(in billions of dollars)

	1974 Year	1975 Year	1975 1st H	1975 2nd H	1976 Q-1	1976 Q-2	1976 July
I. Medium-term Euro-credits: total 1/	28.5	20.6	8.5	12.0	5.7	6.6	2.7
Industrial countries	19.0	6.4	2.8	3.6	1.8	2.0	2.0
Denmark	.4	.3	--	.3	.2	.2	--
France	3.3	.5	.4	.1	.2	.5	.1
Spain	1.1	1.0	.5	.6	.2	.1	1.1
United Kingdom	5.7	.6	.3	.4	.5	.6	.3
Other	8.5	4.0	1.6	2.2	.7	.6	.5
Oil-exporting countries	.8	3.2	1.4	1.8	.7	1.1	*/
Algeria	--	.5	.1	.4	--	.5	--
Indonesia	.4	1.6	1.1	.6	.2	.2	*/
Iran	.1	.3	--	.2	.3	.4	*/
Other	.3	.8	.2	.6	.2	--	--
Other developing countries	7.2	7.9	2.6	5.3	2.1	2.4	.5
Brazil	1.6	2.1	.7	1.4	.7	.5	.1
Mexico	1.5	2.2	.7	1.5	.4	.3	--
Philippines	.9	.3	.1	.1	.6	.1	.1
Other	3.2	3.3	1.1	2.3	.4	1.5	.3
Socialist countries and org's.	1.1	2.7	1.1	1.6	.3	1.1	.2
International institutions and others	.4	.4	.3	.1	.8	.1	--
II. Euro-bonds: total	4.5	10.2	5.6	4.6	4.6	3.8	.8
By borrower: Canada	.4	1.2	.3	.9	1.1	.9	.2
France	.3	1.3	.8	.5	.4	.4	--
Japan	.2	1.2	.6	.6	.4	.3	.1
Other	3.6	6.5	3.9	2.6	2.7	2.2	.5
By currency: 2/ U.S. dollar	3.1	4.8	2.0	2.9	3.0	2.3	.4
German mark	.6	2.9	2.3	.6	1.0	.7	.2
Other	.8	2.5	1.3	1.2	.8	.9	.2
III. Foreign Bonds: total	7.8	11.9	5.1	6.9	5.6	3.7	1.6
By borrower: Canada	2.0	3.4	1.3	2.0	2.6	.8	.6
IBRD	3.1	2.4	.6	1.7	.5	1.1	.1
Other	2.7	6.1	3.2	3.2	2.5	1.8	.9
By market: 2/ U.S. 3/	3.6	6.8	2.7	3.8	3.3	2.1	.9
Switzerland	1.0	3.4	1.4	2.0	1.4	1.2	.3
Other	3.2	1.0	.8	.9	.7	.5	.2
IV. Total (I + II + III)	40.8	42.7	19.2	23.5	16.1	14.1	8.1

/ Publicized credits of over one-year maturity. 2/ Breakdowns may not add to totals because of lack of comprehensive revised data. 3/ Figures differ from those from U.S. sources. */ Less than $50 million. Source: World Bank.

Publicized medium-term Euro-credits arranged in the second quarter rose 16 per cent to $6.6 billion; the first quarter total has been revised downward from that published earlier. French and British borrowers accounted for more than one-half of the $2 billion of borrowing arranged by industrial countries in the second quarter. Electricité de France obtained a 7-year standby in June as back-up for commercial paper issues in the United States; the amount ($500 million) was much greater than originally planned, while the average interest rate (1.02 per cent over LIBO) was the most favorable for any national borrower this year. Loans to U.K. borrowers totalling $550 million included $200 million in May for the Post Office, the first Euro-loan to a British public sector entity since mid-1974, and $350 million of additional loans to private borrowers for North Sea oil field development. The government of Denmark, which is also having external payments difficulties, raised a $200 million loan in May, only two months after obtaining a $195 million equivalent DM loan. In July, Euro-credits to industrial countries were nearly another $2 billion. The large monthly total reflected a $1 billion loan to the Spanish government, the largest Euro-credit since early 1974, and a $300 million credit to the British Water Council.

Among oil-exporting countries, Algeria raised $450 million in the second quarter (almost all for Sonatrach) and Iran arranged three loans for $370 million, bringing the Iranian total through June to $700 million.

Credits arranged by non-oil developing countries rose from $2.1 billion in the first quarter to $2.4 billion in the second. The second quarter total included loans to Chile, Puerto Rico, and Panama, which had borrowed little or nothing in this market for several quarters. Conversely, loans to Brazil ($450 million) were substantially below both the first quarter and the quarterly average in the second half of 1975, and loans to Mexico ($340 million) declined further to a much lower level than late last year. July data and preliminary data for August show a marked drop in loans to the non-oil LDC's as a group.

Euro-bond issues of $3.8 billion in the second quarter were down nearly 25 per cent from the first quarter's $4.6 billion, but were still almost 50 per cent above last year's quarterly average. Issues by French and Japanese borrowers were approximately unchanged from the first quarter, but Canadian issues dipped and the IBRD did not borrow in the second quarter after making $540 million of private placements in the first quarter. The EEC raised $500 million in a private placement in April following $495 million of public issues in March, thereby completing financing of its $1.3 billion of loans to Italy and Ireland. Euro-bond market conditions improved slightly for borrowers in the second quarter. The average final maturity of new issues rose to over 7-1/2 years from 7 years in the first quarter, while the average initial offering yield of 8.7 per cent was about the same as in the first quarter. U.S. dollar issues were 60 per cent of total issues in the second quarter, compared with 66 per cent in the first. In July the rate of new issues dropped off quite sharply, but this is believed to have reflected mainly seasonal factors.

New issues of foreign bonds amounted to $3.7 billion in the second quarter, down from $5.9 billion in the first quarter but above the 1975 quarterly average. Canadian issues, which were extremely large in the first quarter, shrank by about 70 per cent, while for other borrowers as a group the decrease was small. The bulk of the reduction in total foreign bond issues concerned issues in the U.S. market, where almost all Canadian foreign issues take place. The second quarter total shown in the table includes a $750 million World Bank issue offered in the U.S. market in late June.1/ In July, the monthly rate of total foreign issues picked up again, although it was below the first-quarter rate.

1/ U.S. data place this issue in July; this is the principal reason for the differences between the figures for foreign issues in the United States shown in the table and U.S. figures showing $1.6 billion of foreign issues in the U.S. market in the second quarter and $2.0 billion in July. World Bank bond data, used in the table, are based on subscription periods, while the U.S. data are based on takedowns.

U.S. International Transactions. Data available for July indicate: (1) an unusually large merchandise trade deficit, (2) substantial new Canadian bond flotations totaling $900 million and a World Bank bond issue of $750 million, (3) a $900 million short-term capital inflow from Japan--about $400 million in bank-reported private capital flows and an increase of about $500 million in official dollar holdings, and (4) substantially lower net foreign lending by U.S. banks than in the first half of the year after adjustments for special factors.

The July merchandise trade deficit, $13 billion at an annual rate (international accounts basis), was about twice the rate of deficit in the first and second quarters. Substantial strength in July exports was outweighed by an even stronger rise in imports. It should be noted, however, that monthly trade balances often move erractically. (See table below.)

Exports in July amounted to $120 billion at an annual rate, about 5 per cent more than the rate in the second quarter. About one-third of the increase resulted from a $2 billion annual rate rise in the value agricultural exports, mostly owing to larger volumes. Much of the strength of agricultural exports reflects the poor European crop and low stocks abroad. The largest increase came in soybeans with corn exports continuing at very high levels.

U.S. Merchandise Trade*
(billions of dollars, seasonally adjusted annual rates)

	1975		1976					
	3Q	4Q	1Q	2Q	April	May	June	July
EXPORTS	106.2	110.6	107.8	113.9	111.7	112.4	117.5	119.9
Agric.	22.3	23.0	21.3	23.4	22.6	23.8	23.7	25.4
Nonagric.	83.9	87.7	86.4	90.5	89.0	88.6	93.8	94.4
IMPORTS	98.0	101.8	114.0	118.8	116.9	113.3	126.2	132.8
Fuels	30.0	29.5	31.9	36.4	38.9	29.8	40.9	40.3
Nonfuels	68.0	72.3	82.1	82.4	78.0	83.5	85.3	92.4
TRADE BALANCE	+8.2	+8.8	-6.2	-4.9	-5.3	-.9	-8.7	-12.9

Trade Volume
(1974 = 100)

	3Q	4Q	1Q	2Q	April	May	June	July
EXPORTS	97	100	97	101	100	99	104	105
Agric.	105	110	104	115	111	118	116	122
Nonagric.	95	97	95	98	97	95	101	101
IMPORTS	89	92	101	103	102	98	109	114
Fuels	107	103	107	121	130	100	136	134
Nonfuels	82	88	99	97	93	98	100	104

*/ International accounts basis.

Nonagricultural exports also advanced strongly and largely reflected an increase in volume, about equally split between machinery exports and exports of civilian aircraft and parts. New orders for machinery exports began to pick up in the spring as economic recoveries abroad gathered strength, and by the end of July new export orders were at a record level despite the apparent pause in economic expansion abroad. After changing very little since late last year, U.S. machinery export deliveries began to pick up in May and have increased steadily since then.

Aircraft export deliveries in July continued at about the record June pace, with about half the deliveries going to oil-exporting countries.

Imports in July amounted to $133 billion at an annual rate, rising over 5 per cent from the June level and by nearly 12 per cent from the second quarter rate. Monthly statistics for imports of both fuels and nonfuels have been volatile this year.

In July, the volume of oil imports averaged 8.3 million barrels per day (mbd). This compares with averages of 7.6 mbd in the second quarter and 6.7 mbd in the first quarter. Rising fuel imports have been associated with expanding economic activity in the United States, but the July rate of imports was unusually high.

Nonfuel imports increased exceptionally rapidly in July, rising 12 per cent above the second quarter rate. About two-thirds of the increase was in the volume of goods imported, notably of consumer goods and nonfuel industrial supplies. The value of food imports rose very sharply, almost entirely because of a strong rise in the price of imported coffee. Foreign car imports were about the same, in both value and volume, in July as the second quarter average, and the number of new cars imported about equalled sales of foreign cars in the United States in July.

New Foreign bond issues in the United States. Canadian bond flotations in July amounted to $900 million, more than the total for the second quarter. (See table below.) The largest single issue was a $500 million private placement by British Columbia Hydro Authority. In August, only $50 million of Canadian bonds were sold in the United States, but during the last four months of this year, it is expected that new Canadian issues in the U.S. market will amount to somewhat over $1 billion. The willingness of Canadian borrowers to come to the U.S. market at this time reflects expectations of relatively favorable U.S. interest rates and of a fairly stable exchange rate between U.S. and Canadian dollars.

	1976				
	1Q	2Q	June	July	Aug.
New foreign bond issues	2,892	1,600	565	2,015	492
Canada	2,007	848	321	882	50
World Bank	14	--	--	750	--
Other	871	752	244	383	442

NOTE: Includes both public offerings and private placements dated by takedown. In millions of dollars.

Other foreign security flotations amounted to about $380 million in July, including an Inter-American Development bank issue of $100 million. During August, there were two non-Canadian issues, one by the Asian Development Bank and the other a $367 million issue by the National Power Company of the Philippines that was guaranteed by the Eximbank. For September and October, about $300 million in non-Canadian foreign security placements are scheduled, the largest of which are $100 million by France and $100 million by the EC (to reduce bank borrowings associated with EC loans to Italy and Ireland).

In July, the World Bank floated #750 million in long-term issues and used these funds together with $560 million withdrawn from U.S. commercial banks to purchase $1.3 billion of U.S. Treasury securities. These transactions significantly affected several categories in the U.S. capital accounts as can be seen in the table below.

Effect of World Bank on July Transactions
(millions of dollars)

	Including World Bank	World Bank	Excluding World Bank
Bank reported private capital flows, net	475	-556	1,031
Claims on foreigners (increase, -)	-1,612	--	-1,612
Liabilities to foreigners (increase, +)	2,087	-556	2,643
Foreign private new purchases (+) of U.S. Treasury securities	1,406	1,334	72
U.S. net purch. (-) of foreign securities	-1,861	-750	-1,111
(New issues)	(-2,015)		(-1,265)

Foreign purchases of U.S. corporate stocks, other than by OPEC countries, were only $16 million in July and have been less than $50 million per month for the past several months. This compares with foreign purchases of about $1 billion in the first quarter and $2.7 billion for the year 1975.

Bank-reported private capital recorded a net inflow of about $500 million in July after excluding the World Bank transactions described above and excluding the effects of weekend arbitrage activities of banks (the so-called Friday-Monday transactions) that were recorded because the last business day in July was a Friday. A large element of the inflow was a $400 million net inflow from Japan, partly a flow from Japanese banks to their U.S. offices and partly reduced trade-related borrowing in the United States by Japanese firms, perhaps reflecting efforts by Japanese authorities to reduce new borrowings of dollars. Adjusted for these factors, the rate of net foreign lending by U.S. banks was substantially less in July than in the first half of the year.

<u>Foreign official assets in the United States</u> increased by about $900 million in July. Increases by OPEC countries of about $650 million were in line with their recent rate of inflows averaging about $2-1/2 billion per quarter. Official assets of other countries increased by about $250 million in July as an increase of about $500 million in Japanese assets was partly offset by declines for other countries.

Price Developments in Major Foreign Industrial Countries. The decline in inflation rates that began in late 1974 in the major industrial countries has, in most cases, moderated this year, and in some countries a renewal of inflationary pressures has appeared again. (See Table). The major exception to this general pattern is the United Kingdom where the inflation rate has continued to decline from the exceptionally high levels reached in 1975.

Despite the decline in inflation rates, they remain very high. Among the major countries, consumer price increases this year (latest month over December 1975, at annual rate) range from about 5 per cent in Germany to about 6-1/2-10 per cent for Canada, Japan, and France, to 12 per cent for the United Kingdom, and 20 per cent in Italy. With the exception of Switzerland, the inflation rates in the smaller countries, which had not reached exceptionally high levels, are generally in the 8-10 per cent range. These high inflation rates, persisting as they do at the end of the most severe recession of the post-war period, pose extremely difficult problems for policy-makers. The authorities in most countries are trying to moderate the pace of economic expansion for fear of igniting even stronger inflation, despite the fact that substantial amounts of slack resources still exist. The wide disparity in inflation rates, in addition, has probably been manifested in the continuing disturbances in foreign exchange markets.

Changes in the inflation rate of wholesale prices have been sharper than those in consumer prices, due, no doubt to the great volatility that commodity prices have shown. Wholesale price inflation,

Table 1. Changes in Consumer and Wholesale Prices
in Major Industrial Countries
1975 - present
(Not Seasonally Adjusted)

	Percentage Change Dec.75/Dec.74	Annual Rate of Change Quarter over previous Quarter (per cent) 1975 Q3	1975 Q4	1976 Q1	1976 Q2	Latest 3 Months	Latest Month
		CONSUMER PRICES					
Canada	9.5	14.3	8.7	5.3	6.1	6.5	August
France	9.6	9.1	9.1	10.0	9.5	8.9	July
Germany	5.4	3.2	3.6	7.0	5.7	2.3	August
Italy	10.8	7.8	12.1	17.9	27.7	21.4	July
Japan	8.2	3.6	10.0	10.4	13.4	5.0	August
United Kingdom	24.9	18.8	14.3	15.2	15.6	12.5	July
United States	7.0	8.7	6.6	4.1	5.3	6.1	July
		WHOLESALE PRICES					
Canada	3.7	11.7	3.6	1.6	7.4		June
France	-4.5	1.2	-1.2	10.0	19.3	20.3	July
Germany	4.3	0.2	2.8	13.0	8.2	5.1	July
Italy	4.9	3.6	10.4	29.1	55.1	39.5	July
Japan	1.1	2.0	4.5	8.2	6.6	7.1	August
United Kingdom	20.0	16.1	12.6	16.5	15.6	17.4	August
United States	4.2	8.7	4.5	2.0	5.7	6.1	August

Definitions and Sources: All countries except France and United Kingdom: general wholesale price index; France: industrial products; United Kingdom: manufactured products, home market sales. National sources.

in general, had fallen to very low rates in 1975. By the end of 1975 or the beginning of 1976, the inflation rate began to accelerate with the highest rates of increase shown by Italy. France and the United Kingdom are at double-digit levels, while Germany, Japan and Canada have more moderate rates of increase. (See Table).

The acceleration of wholesale prices reflects, in part, the upswing in economic activity that began last year and the consequent pressure on commodity prices. The *Economist* dollar index for all commodities, which had been falling steadily since the end of 1974, began to rise at the end of 1975 and had climbed by nearly 36 per cent from the end of November 1975 to the beginning of July of this year, after which it has flattened out. The impact of changes in world commodity prices on domestic price levels expressed in local currencies has been intensified in countries like the United Kingdom, Italy and France due to depreciating currencies while it has been moderated in Japan and Germany by currency appreciation. The flattening out of the *Economist* index is one favorable feature of current commodity price developments. A second is that no major bottlenecks in material production seems yet to have appeared. But there are some major uncertainties. One is the possibility of significant increases in the OPEC crude oil price early next year. A second is the effect of the European drought on farm prices. The effect of the drought has been especially severe in the United Kingdom, France, and Belgium. However, with some exceptions, until now, little impact can be seen in food prices, and since the contribution of European agriculture to world output is minor, the European drought is unlikely to have a significant impact on world prices. However, the European Community, under its Common Agricultural Policy, may raise prices by more than it otherwise would have, in order to protect farmers' incomes from the effect of falling output.

Associated with the recent differences in inflationary experience has been a wide divergence in the behavior of nominal wages. Nominal wage increases reflect, in part, past and anticipated inflation rates as workers try to maintain real wages, but there are significant differences among countries in the ability of labor to press its real wage claims. Also, the increase in nominal wages that can be achieved without creating unemployment depends upon the monetary authority's willingness to validate wage and price pressures by appropriate expansion of the monetary aggregates. The recent combination of high rates of wage and price inflation and a substantial degree of slack in their economies, has led some countries, the United Kingdom, Canada and some of the smaller countries, to adopt income policies since conventional demand management policies appear not to be adequate to achieve both price stability and high employment.

The most dramatic recent example of a reduction in the inflation rate, as shown in consumer prices, has been in the United Kingdom. A major reason for this reduction has been the Government's ability to get trade union acceptance of its incomes policy. At the expiration of the £6 pay limit on July 31, the unions agreed to limit pay increases for the following 12 months by an average of about 4-1/2 per cent. In exchange for this agreement, the government has sought to cushion the fall in real disposable incomes by reducing income taxes. At the same time, price and profit controls will remain in force throughout the period of the agreement. The rate of wage increases has declined substantially since the inception of the incomes policy. Average earnings had increased over 30 per cent between the first quarters of 1974 and 1975; in the 6 months ending May 1976, earnings rose at an annual rate of about 14 per cent. This relative moderation in wages and the willingness of the unions to accept the pay limits are also partly a result of high unemployment levels which are expected to persist for a very long time. Any further fall in inflation is likely to be modest, and increased inflationary pressures may arise from a possible increase in agricultural prices. The rate of consumer price increases may reach perhaps 10 per cent by the middle of 1977.

In Italy there was a sharp acceleration in inflation in 1976. Since May, the inflation rate has levelled off, but the underlying rate remains high. The upward burst in prices this year followed the depreciation of the lira which fell on an effective basis about 25 per cent between January and May. The recent stability of the lira should reduce inflationary pressures. The major uncertainty in the price outlook concerns wage prospects; wage rates have been rising at annual rates of over 20 per cent since 1973, and unit labor costs have also been rising at an exceptional pace -- they increased 20 per cent in 1975 over 1974. Although recently completed wage negotiations have produced relatively moderate settlements, a cost-of-living escalator, which covers most of the work force and offsets a substantial part of price increases, will push wages up sharply this year, reflecting increases in consumer prices that have already taken place. Wage and price pressures are, therefore, likely to continue to be strong through 1977 -- with an inflation rate of perhaps 20 per cent.

In France, inflationary pressures have increased since the last quarter of 1975. In addition to commodity price pressures, wage rates increased at an annual rate of 17 per cent in the first two quarters of 1976 compared to an 11 per cent increase in the last quarter of 1975. This acceleration was due in part to seasonal factors but may also represent a genuine quickening in wage inflation. Given the high rate of wage increases, and stagnating industrial production since the end of the first quarter, it is likely that unit labor costs are rising rapidly this year. Substantial price pressure appears, therefore, to be in prospect; however, the credit restraint begun in March may slow these pressures. The price outlook also depends on the contents of an anti-inflation program that the new Government will announce on September 22.

Germany continues to have the best price performance of the major industrial countries. A moderate rate of wage increases is a key factor in explaining this performance. Wage settlements this year have averaged about 6-1/2 per cent and should continue to be moderate, but wage pressures might intensify, particularly if profits rise sharply. This may occur as a result of falling unit labor costs, which have decreased by 10 per cent in the year ending 1976 Q-1. Consumer prices are expected to increase about 4.5 per cent in 1976 over 1975. There appears to be some conflict between the Bundesbank and the government concerning next year's inflation rate; the latter wants to aim for a 4-4.5 per cent inflation rate, and the central bank wants a lower objective.

In Japan inflationary pressures have intensified since the end of last year, although there are also moderating influences at work. The trend in the annual spring wage negotiations has been encouraging: the average spring settlement had fallen from nearly 33 per cent in 1974 to 13 per cent in 1975 and this year resulted in an average agreement of 8.8 per cent. The moderate wage performance and a sharp rise in productivity, which in April 1976 was 13.5 per cent higher than a year earlier, have led to a drop in unit labor costs of 2.6 per cent in the year ending June 1976. The outlook, on the other hand, is for intensification of price pressures in the immediate future. The expected increase in publicly regulated prices (electric power, gas, railways) will add to inflationary pressures. On the other hand, the moderate annual wage increase and continued productivity gains, as well as the appreciation of the yen, should be moderating influences.

In Canada the volatile component in consumer prices has been food, and the rate of increase of the CPI excluding food has been in the 9-10 per cent range for 1975-76 and about 8 per cent in recent months.

A Canadian Anti-inflation Program was introduced in October 1975 in response to the acceleration of prices in the summer of 1975 and very high increases in basic wage rates. There has been a noticeable slowing in wage settlements since the middle of 1975 which could be attributable to the program. However, the improvement in the consumer price performance is due largely to food, which is excluded from the program. If the unions, which are strongly opposed to the Anti-Inflation Program, are successful in forcing its termination before its scheduled expiration in December 1978, inflationary pressures would be intensified.