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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

July 12, 1972

TABLE OF CONTENTS

DOMESTIC NONFINANCIAL SCENE

July 12, 1972

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

	Latest Data-1972			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rates)		
Unemployment rate (%)	June	7/7	5.5	5.9 1/	5.9 1/	5.8 1/
Nonfarm employment, payroll (mil.)	June	7/7	72.6	0.3	2.9	2.7
Manufacturing	June	7/7	18.9	-3.4	2.8	1.6
Nonmanufacturing	June	7/7	53.6	1.5	3.0	3.1
Private nonfarm:						
Average weekly hours (hours)	June	7/7	37.2	37.0 1/	37.1 1/	37.1 1/
Hourly earnings ($)	June	7/7	3.62	3.3	4.5	5.8
Manufacturing:						
Average weekly hours (hours)	June	7/7	40.6	40.5 1/	40.4 1/	40.0 1/
Inventories to sales ratio:						
Manufacturing and trade, total r/	May	7/14	1.51	1.51 1/	1.55 1/	1.60 1/
Manufacturing r/	May	6/30	1.69	1.69 1/	1.74 1/	1.85 1/
Trade	May	7/14	1.34	1.34 1/	1.36 1/	1.37 1/
Wholesale prices (1967=100)	June	7/7	118.5	5.6	4.8	3.9
Industrial commodities	June	7/7	118.0	5.0	4.5	3.5
Farm products & foods and feeds	June	7/7	120.0	5.8	4.7	5.2
Consumer prices (1967=100)	May	6/7	124.7	4.0	2.1	3.2
Food	May	6/7	122.4	-1.0	-0.6	3.5
Commodities except food	May	6/7	119.2	6.1	3.4	2.2
Services 2/	May	6/7	132.7	2.8	2.7	4.1
Personal income ($ bil.) 3/	May	6/14	915.9	6.3	6.3	7.9
				(Not at annual rates)		
Retail sales, total ($ bil.)	June	7/10	36.4	-1.4	-0.1	7.6
GAF	June	7/10	9.7	-1.1	0.7	8.4
Auto sales, total (mil. units) 3/	June	7/6	10.69	-47.4	18.8	8.4
Domestic models	June	7/6	9.00	-6.3	2.6	9.8
Foreign models	June	7/6	1.69	10.1	17.4	1.8
Mfrs. new orders dur. goods ($ bil.)	May	6/30	33.6	0.3	4.3	17.5
Capital goods industries:						
Nondefense	May	6/30	8.8	-0.2	7.0	20.8
Defense	May	6/30	1.5	-22.0	-13.8	-1.2
Housing starts, private (thous.) 3/	May	6/16	2,322	10.5	-13.4	13.5
Leading indicators (1967=100)	May	6/72	140.0	0.2	3.2	11.6

1/ Actual data.
2/ Not seasonally adjusted.
3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Nominal GNP in the second quarter is now estimated to have increased $29 billion, about the same as estimated four weeks ago. The GNP deflator appears to have risen appreciably less than earlier expected, however, reflecting a slowing in construction cost increases and a surprisingly moderate rise thus far in consumer service prices. Real GNP increased at an annual rate of close to 8 per cent in the second quarter, according to present staff estimates. This compares with a projected rise at a rate of about 6-1/2 per cent made four weeks ago, and an increase of 5-1/2 per cent in the first quarter.

Major factors accounting for the strength in the second quarter were a sharp upswing in consumer spending, a continued rise in business fixed investment, and an indicated increase in inventory investment in contrast to the decline in the previous quarter. Expenditures for residential construction appear to be peaking out, however, and net exports of goods and services apparently showed no improvement from the poor first quarter performance.

The latest available monthly data suggests less buoyancy than in other recent months. Industrial production in June is tentatively estimated to have increased 0.5 per cent, the same as in May, but slower than the pace earlier this year. According to the advance report, retail sales declined in June, following a large increase in May. Domestic-type auto sales continued strong in June, but were off somewhat from the previous month. In May, manufactureres' new orders for durable goods edged up further, book value of manufacturing and trade inventories rose sharply, particularly at retail.

The unemployment rate declined sharply in June--to 5.5 per cent, from 5.9 per cent--reflecting in part difficulties in seasonal adjustment. Nonfarm payroll employment was unchanged from May, after a sustained advance. In manufacturing, employment was down somewhat but the workweek edged up. Average hourly earnings in the private nonfarm economy increased very little, for the second consecutive month.

The wholesale price index rose sharply in June, as it had in May, prices of farm products and foods were again up considerably, largely because of livestock and meats. The increase in prices of industrial commodities, at an annual rate of 5 per cent, was somewhat above the post-freeze average. In May, the consumer price index rose at an annual rate of 4 per cent, following a small net increase in March and April.

Outlook. The staff continues to project strong gains in real GNP during the second half of this year. As before, this projection assumes growth in the monetary aggregates consistent with a 6 per cent rate of expansion in M_1.

The smaller rise in both nominal and real GNP now projected for the third quarter stems in part from postponement in the effective date of the increase in social security benefits to September 1, with initial payments in early October; we had earlier assumed a 12-1/2 per cent increase plus some liberalizations not in the bill as enacted, effective July 1. As a consequence, the increases in disposable income and consumer spending have been lowered in this quarter and raised in the fourth. We have lowered somewhat our estimates of inventory investment in the second half of this year, because of recent benchmark revisions of manufacturing book value data which raised stock-sales ratios.

The GNP fixed weight price index is expected to increase at an annual rate of about 3-1/2 per cent in the second half of the year, the same as estimated in the last Greenbook. The unemployment rate is projected at 5.3 per cent in the fourth quarter, also unchanged from the projection four weeks ago.

STAFF GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
	6/14/72	Current	6/14/72	Current	6/14/72	Current	6/14/72	Current
1971[1/]	72.7	72.7	2.7	2.7	4.8	4.8	5.9	5.9
1972	102.2	100.5	5.7	5.9	3.6	3.5	5.6	5.6
1973	118.3	117.3	6.2	6.4	3.7	3.6	5.1	5.1
1972-I[1/]	30.7	30.7	5.6	5.6	4.4	4.4	5.8	5.8
1972-II	28.9	29.1	6.4	7.8	4.0	3.5	5.8	5.8
1972-III	31.5	27.8	7.7	6.5	3.4	3.4	5.6	5.6
1972-IV	31.8	32.0	7.5	7.7	3.4	3.4	5.3	5.3
1973-I	30.1	30.9	5.8	6.3	3.5	3.5	5.2	5.2
1973-II	27.9	27.6	5.4	5.6	3.7	3.7	5.1	5.1
1973-III	27.5	27.3	4.5	4.7	4.2	4.2	5.0	5.0
1973-IV	26.7	27.4	4.1	4.5	4.2	4.2	5.0	5.0

1/ Actual.

Summary quarterly figures for 1973 are shown in the accompanying table, and detailed figures for the year as a whole in the full GNP table. Revisions in both nominal and real GNP in 1973 from the figures presented in the Chart Show are minimal, and the price and unemployment projections are unchanged.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 Projected II	1972 Projected III	1972 Projected IV
Gross National Product	1046.8	1147.3	1264.6	1072.9	1103.6	1132.7	1160.5	1192.5
Final purchases	1044.5	1141.7	1250.1	1070.4	1103.0	1128.7	1153.5	1181.5
Private	811.5	883.4	968.8	829.6	853.4	874.2	892.7	913.4
Excluding net exports	811.5	888.5	970.0	834.2	859.6	880.2	897.2	916.8
Personal consumption expenditures	662.1	715.5	786.8	677.2	691.8	707.5	722.3	740.4
Durable goods	100.5	112.2	127.1	103.6	107.6	110.5	113.5	117.0
Nondurable goods	278.6	298.5	328.6	283.3	288.0	295.5	301.3	309.1
Services	282.9	304.9	331.1	290.3	296.2	301.5	307.5	314.3
Gross private domestic investment	151.6	178.6	197.8	159.4	168.3	176.7	181.9	187.4
Residential construction	40.6	49.6	46.0	44.4	49.0	50.0	50.2	49.2
Business fixed investment	108.7	123.3	137.3	112.6	118.7	122.7	124.7	127.2
Change in business inventories	2.2	5.7	14.5	2.4	0.6	4.0	7.0	11.0
Nonfarm	1.7	5.4	14.5	2.0	0.1	3.6	6.8	11.0
Net exports of goods and services 1/	0.0	-5.0	-1.2	-4.6	-6.2	-6.0	-4.5	-3.4
Exports	65.3	70.5	79.8	60.4	69.2	68.9	70.8	73.0
Imports	65.3	75.5	81.0	65.0	75.4	74.9	75.3	76.4
Gov't. purchases of goods and services	233.0	258.2	281.3	240.8	249.6	254.5	260.8	268.1
Federal	97.6	107.4	109.6	100.3	104.9	106.5	108.3	110.1
Defense	71.4	77.7	78.6	71.4	75.8	77.0	78.1	79.9
Other	26.2	29.7	31.0	28.9	29.0	29.5	30.2	30.2
State & local	135.5	150.8	171.8	140.5	144.8	148.0	152.5	158.0
Gross national product in constant (1958) dollars	739.4	782.9	832.8	751.3	761.6	776.4	789.1	804.4
GNP implicit deflator (1958 = 100)	141.6	146.5	151.8	142.8	144.9	145.9	147.1	148.3
Personal income	857.0	929.2	1016.6	876.7	900.1	916.6	935.6	964.4
Wage and salary disbursements	574.2	629.0	690.3	587.0	608.9	621.9	634.9	650.2
Disposable income	741.3	791.0	873.9	755.0	764.3	778.0	798.3	823.5
Personal saving	60.5	56.2	66.9	59.0	53.5	51.3	56.6	63.5
Saving rate (per cent)	8.2	7.1	7.7	7.8	7.0	6.6	7.1	7.7
Corporate profits before tax	85.5	100.9	118.4	86.0	91.9	98.0	103.0	110.5
Corp. cash flow, net of div. (domestic)	81.0	97.4	111.5	85.6	90.2	95.1	99.6	104.7
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.8	227.8	246.1	203.0	222.2	226.8	227.6	234.6
Expenditures	221.9	247.8	270.3	228.7	235.5	243.8	249.4	262.4
Surplus or deficit (-)	-23.1	-20.0	-24.2	-25.7	-13.2	-17.0	-21.8	-27.8
High employment surplus or deficit (-)	2.9	-0.8	-8.3	6.6	9.2	0.6	-1.8	-11.0
Total labor force (millions)	86.9	89.0	90.9	87.7	88.4	88.8	89.2	89.7
Armed forces "	2.8	2.4	2.4	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.6	88.5	85.0	85.9	86.4	86.8	87.3
Unemployment rate (per cent)	5.9	5.6	5.1	5.9	5.8	5.8	5.6	5.3
Nonfarm payroll employment (millions)	70.7	72.7	75.0	71.0	71.8	72.5	73.0	73.6
Manufacturing	18.6	19.0	19.7	18.6	18.7	18.9	19.1	19.3
Industrial production (1967 = 100)	106.3	112.8	122.2	107.0	109.3	111.6	113.8	116.6
Capacity utilization, manufacturing (per cent)	74.6	76.8	80.0	74.1	75.1	76.4	77.2	78.4
Housing starts, private (millions, A.R.)	2.05	2.27	1.93	2.24	2.51	2.27	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.65	11.06	10.48	10.10	10.74	10.75	11.00
Domestic models	8.68	9.17	9.59	9.20	8.70	9.21	9.25	9.50
Foreign models	1.46	1.48	1.47	1.28	1.40	1.53	1.50	1.50

1/ The projected GNP exports and imports of goods and services, and their net, are based on quarter-to-quarter changes projected in balance of payments exports and imports, shown below. These are consistent with revised '71-IV figures not yet incorporated in the GNP accounts

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 II	1972 III	1972 IV
Net exports of goods and services	0.8	-3.4	0.3	-2.1	-4.6	-4.4	-2.9	-1.9
Exports	66.0	72.0	81.3	62.7	70.7	70.4	72.3	74.5
Imports	65.2	75.4	81.0	64.8	75.3	74.8	75.2	76.4

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 Projected II	1972 Projected III	1972 Projected IV
	Billions of Dollars							
Gross National Product	72.7	100.5	117.3	19.5	30.7	29.1	27.8	32.0
Inventory change	-0.6	3.5	8.8	3.6	-1.8	3.4	3.0	4.0
Final purchases	73.2	97.2	108.4	15.8	32.6	25.7	24.8	28.0
Private	59.6	71.9	85.4	8.8	23.8	20.8	18.5	20.7
Excluding net exports	63.2	77.0	81.5	13.4	25.4	20.6	17.0	19.6
Net exports	-3.6	-5.0 1/	3.8 1/	-4.6	-1.6	0.2	1.5	1.1
Government	13.6	25.2	23.0	7.0	8.8	4.9	6.3	7.3
GNP in constant (1958) dollars	19.4	43.4 1/	49.9	10.6	10.3	14.3	13.2	15.3
Final purchases	19.6	41.6	43.8	7.7	12.4	12.2	10.6	12.5
Private	19.8	34.0	39.5	4.1	10.9	10.8	8.6	10.0
	Per Cent Per Year							
Gross National Product	7.5	9.6	10.2	7.6 2/	12.0 2/	10.5	9.8	11.0
Final purchases	7.5	9.3	9.5	6.0	12.2	9.3	8.8	9.7
Private	7.9	8.9	9.7	4.3	11.5	9.7	8.5	9.3
Personal consumption expenditures	7.5	8.1	10.0	5.0	8.6	9.1	8.4	10.0
Durable goods	13.4	11.6	13.3	3.1	15.4	10.8	10.9	12.3
Nondurable goods	5.3	7.1	10.1	4.4	6.6	10.4	7.9	10.4
Services	7.8	7.8	8.6	6.3	8.1	7.2	8.0	8.8
Gross private domestic investment	12.0	17.8	10.8	22.8	22.3	20.0	11.8	12.1
Residential construction	33.6	22.2	-7.3	15.9	41.4	8.2	1.6	-8.0
Business fixed investment	6.5	13.4	11.4	12.1	21.7	13.5	6.5	8.0
Gov't. purchases of goods & services	6.2	10.8	8.9	12.0	14.6	7.9	9.9	11.2
Federal	0.4	10.0	2.2	11.1	18.3	6.1	6.8	6.6
Defense	-5.3	8.8	1.2	6.8	24.6	6.3	5.7	9.2
Other	19.6	13.4	4.4	21.9	1.4	6.9	9.5	0.0
State & local	10.9	11.3	13.9	12.6	12.2	8.8	12.2	14.4
GNP in constant (1958) dollars	2.7	5.9	6.4	5.8 2/	5.6 2/	7.8	6.5	7.7
Final purchases								
Private								
GNP implicit deflator	4.7	3.5	3.6	1.7 2/4/	6.0 2/5/	2.7	3.2	3.2
Private GNP fixed weight index 3/	4.8	3.5	3.6	1.8 2/	4.4 2/	3.5	3.4	3.4
Personal income	6.6	8.4	9.4	5.6	10.7	7.3	8.3	12.3
Wage and salary disbursements	6.1	9.5	9.7	6.7	14.9	8.5	8.4	9.6
Disposable income	7.8	6.7	10.5	3.5	4.9	7.2	10.4	12.6
Corporate profits before tax	13.4	18.1	17.4	0.9	27.4	26.6	20.4	29.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	14.6	8.0	10.5	37.6	8.3	1.4	12.3
Expenditures	8.2	11.7	-9.1	7.3	11.9	14.1	9.2	20.9
Nonfarm payroll employment	0.1	2.8	3.2	2.2	4.3	3.9	2.8	3.3
Manufacturing	-3.9	2.2	3.7	0.9	2.5	4.3	4.2	4.2
Industrial production	-0.4	6.1	8.3	4.2	8.5	8.6	8.0	9.7
Housing starts, private	43.4	10.7	-15.0	24.2	48.5	-38.7	-12.3	-18.2
Sales new autos	21.3	5.1	3.8	7.4	-14.5	25.3	0.4	9.3
Domestic models	21.9	5.6	4.6	20.1	-21.7	23.4	1.7	10.8
Foreign models	18.7	1.4	-0.5	-66.4	37.5	37.1	7.8	0.0

1/ On a balance of payments basis \$-4.2 billion in 1972 and \$3.7 billion in 1973.

2/ At compound rates.

3/ Using expenditures in 1967 as weights.

4/ Excluding the first \$1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.

5/ Excluding the remaining \$1.2 billion, annual rate, of the volunteer army pay increase and the general Federal employees pay increase, 4.3 per cent per year.

Industrial production. Industrial production is tentatively estimated to have increased about 0.5 per cent further in June with output gains in both products and industrial materials. After revisions (going back to early 1970) the June index is likely to exceed the previous peak of September 1969 by about 1 per cent.

Among consumer goods, production of some household appliances, furniture, and staples apparently showed further gains. Auto assemblies in the first three weeks in June changed little from the May rate of 8.8 million units. On the basis of production worker manhour data, output of business equipment is estimated to have recovered further and production of defense equipment to have risen.

Output of raw steel rose slightly in June and further gains in production of construction materials, textiles, paper, and chemicals are indicated.

Retail sales. Sales in the second quarter were 2.8 per cent above the first quarter despite a 1.4 per cent decrease from May to June. Some drop back was not unexpected following the unseasonally upsurge in May and the adverse effects of floods and cool weather in many parts of the country. In June every major category of store reported lower sales but, as frequently happens, the swing was largest for the volatile automotive group. Durables as a group declined 1.8 per cent and nondurables were off 1.2 per cent.

The second quarter averages were characterized by strength in both the durable and nondurable categories. Durable goods sales increased about 3-1/2 per cent from the first quarter, largely because of a sizable gain in the automotive group. Furniture and appliance sales declined slightly following an unusually large rise. Nondurable goods sales in the second quarter rose 2.5 per cent--unusually strong for this slow moving broad category. Sales were strong in both the food and general merchandise groups.

RETAIL SALES
(Seasonally adjusted, percentage change from preceding quarter and month)

	1972				
	IV-IQ	I-IIQ	April	May	June
Total sales	1.2	2.8	- .4	1.8	-1.4
Durable	.3	3.4	-1.0	2.2	-1.8
Auto	-3.1	5.7	- .1	3.3	-2.3
Furniture and appliance	9.2	-1.2	-2.1	- .7	-1.0
Nondurable	1.6	2.5	- .2	1.6	-1.2
Food	1.7	3.6	1.0	1.8	-1.0
General merchandise	2.3	2.9	-1.0	3.6	- .9
Total, less auto and nonconsumption items	2.1	2.5	- .1	1.3	-1.2
GAAF	3.0	1.8	- .3	2.2	-1.1
Real*	.3	n.a.	- .4	1.4	n.a.

* Deflated by all commodities CPI, seasonally adjusted.

Unit sales of consumer durables. Sales of new domestic-type autos in June were at an annual rate of 9.0 million units, compared with 9.6 million in May. This was the first decline since December last year. For the second quarter as a whole, sales were at a 9.2 million unit annual rate compared with 8.7 million in the first quarter and 8.3 million a year earlier.

June sales of imported autos were at a 1.7 million annual rate, up from 1.5 million(r) in May but about the same as a year earlier. The import share of total sales was again 14 per cent, as in the preceding two months. In June last year, the import share was 16 per cent.

Partially complete data indicate retailers' unit purchases in June of major home appliances declined 4 per cent from May, the second straight monthly drop, but they were 5 per cent above June a year ago. Increases from May were registered for refrigerators, electric ranges, and dishwashers with other items steady or down. Compared to a year earlier, all items showed increases except air conditioners for which purchases have been affected both by the cooler weather this year and excessive accumulation of dealer inventories last year. Retailer purchases of TVs showed little change from May but were 21 per cent above a year ago. Radio purchases were up substantially from both a month and a year ago.

UNIT PURCHASES OF HOME GOODS BY RETAILERS
Seasonally adjusted, 1967=100

	1971	1972			Per cent change	
	June	April	May	June	Month ago	Year ago
TVs 1/	109	141	131	130	-1	21
Radios	81	105	88	94	7	16
Home Appliances 2/	126	146	138r	132e	-4	5

1/ Includes foreign-made units sold under U. S. brand names. Foreign-made sold under foreign brands not included.
2/ Weighted average of indexes for room air conditioners, dishwashers, dryers, freezers, electric ranges, gas ranges, refrigerators, washing machines, and vacuum cleaners. Weights are 1967 retail sales values.

Michigan survey of consumer attitudes. After moving up very strongly in February, consumer attitudes in late April and May improved moderately further, according to the Michigan Survey. The index of sentiment in May was up almost 2 percentage points from February and well above the trough in mid-1970.

In the February survey, answers to all five questions in the index of sentiment improved and the increase of 5 percentage points was the largest since mid-1958. In the latest survey, however, there were conflicting changes among components, a situation which in the past has been associated with a weaker relationship between changes in the index and the outlook for consumer spending.

Consumer attitudes toward present and expected personal financial conditions improved strongly. Advances in these components are generally associated with greater willingness to purchase durable goods and to borrow on instalment credit. In contrast, opinions about business conditions in both the next 12 months and next 5 years deteriorated in the May survey. These seem to have been related to a growing lack of confidence in Government economic policy. Following the President's announcement of wage and price controls last August, confidence in the ability of the Administration to control prices and improve employment increased sharply. During the latest 6 months, however, faith in these policies has decreased and opinions about likely success of the Government in dealing with these key economic problems are now almost back to where they were in May 1971.

Cyclical indicators. The Census trend-adjusted composite index of leading indicators rose only 0.2 per cent in May(p). However, it is likely that the May figure will be revised upward, as a result of increases in inventory change and consumer instalment debt change--series not included in the preliminary index--and upward revisions in new orders.

Leading series increasing in May were housing permits and industrial materials prices. Series declining were the workweek, unemployment claims (inverted), new orders for durable goods, contracts and orders for plant and equipment, common stock prices, and the ratio of price to unit labor cost.

The coincident and lagging composits rose in May.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
May 1972 (p)

	Per cent change from:	
	Previous month	Three months earlier
12 Leading (trend adjusted)	.2	3.2
12 Leading, prior to trend adjustment	-.2	2.1
5 Coincident	.7	2.4
5 Coincident, deflated	.6	2.2
6 Lagging	1.0	3.9

Of the leading indicators available so far for June, industrial materials prices declined slightly but common stock prices and the manufacturing workweek rose, according to preliminary data.

Inventories. Book value of business inventories rose sharply in May. The $14 billion(p) rate of increase was well above the upward-revised April rate. Manufacturers' stocks at a $4.9 billion rate, after declining slightly in April, and there were large and widespread increases at retail outlets; these were partly offset by a lower rate of accumulation for wholesale trade.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rate, billions of dollars

	1972		
	Q I (Rev.)	April (Rev.)	May (Prel.)
Manufacturing and trade	5.8	8.4	14.2
Manufacturing, total	3.1	- .3	4.9
Durable	2.9	- .3	5.5
Trade, total	2.7	8.7	9.3
Wholesale	1.0	4.8	1.0
Retail	1.7	3.9	8.3

Manufacturers' and retail sales also increased and the business inventory-sales ratio was unchanged at 1.51, following a drop in April.

Durable goods manufacturers' stocks rose slightly relative to unfilled orders.

INVENTORY RATIOS

	1971		1972	
	April (r)	May (r)	April (r)	May (p)
Inventories to sales				
Manufacturing and trade	1.61	1.60	1.51	1.51
Manufacturing and trade	1.86	1.85	1.69	1.69
Durable	2.29	2.26	2.01	2.01
Nondurable	1.37	1.38	1.30	1.30
Trade, total	1.37	1.37	1.34	1.34
Wholesale	1.24	1.21	1.22	1.23
Retail	1.45	1.47	1.41	1.41
Inventories to unfilled orders				
Durable goods manufacturing	.914	.927	.900	.903

Manufacturers' inventories and shipments have been revised to incorporate 1970 benchmarks and other revisions. Past rates of inventory growth were increased by $200 million in 1969 and nearly $1 billion in 1970. In addition, shipments and unfilled orders were revised downwards, and as a result, ratios of inventories to sales and unfilled orders of durable goods rose considerably more in 1970 than had been previously indicated. The new data still show marked declines in the inventory-sales ratio since 1970, but the ratio remains higher than before the revision. The ratio of inventories to unfilled orders, high before the revision, is even higher now. The revised ratios are more consistent with the persistence of low rates of inventory accumulation in 1971. The revision raised recent inventory-sales ratios for manufacturing and trade combined by .05.

Manufacturers' orders and shipments. New orders for durable goods rose 0.3 (p) per cent in May, following a 2.2 per cent increase in April. On average, new orders in April and May were well above the first quarter, continuing on a strong upward trend. Except for defense orders, which were off from a high first quarter, and motor vehicle orders, which were little changed, all major market groupings were substantially above their first-quarter levels.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
Per cent change

	May from April (p)	April-May average from Q I average (p)
Durable goods, total	.3	3.5
Primary metals	7.9	5.5
Motor vehicles and parts	-5.1	.1
Household durables	3.4	9.7
Capital goods industries:		
Nondefense	- .2	5.8
Defense	-22.0	-15.2
Construction & other durables	2.8	4.3

Shipments and unfilled orders also increased in May. The 0.3 per cent increase in unfilled orders was somewhat smaller than in previous months.

Manufacturers' orders and shipments have been revised, incorporating benchmark data for 1970 and seasonal and other revisions. As a result, the current level of new orders for durable goods is more than $2 billion lower than indicated earlier. The revised orders figures decline somewhat more in 1969-70 and increase somewhat less since then, but the recovery is still indicated to be strong, with the May 1972 level of orders 30 per cent above the lows reached in October-November 1970.

PER CENT CHANGES, NEW ORDERS FOR DURABLE GOODS
Before and After 1972 Revision

	Before revision	After revision
October 1968 to September 1969	4.8	.8
September 1969 to October-November 1970	-12.4	-14.3
October-November 1970 to March 1972	29.2	26.6

Construction and real estate. Seasonally adjusted value of new construction put in place in June was at an annual rate of $122 billion, little changed from May and only slightly below the recent high in March. Within the private sector, outlays for new residential construction, which lag starts, edged upward to contribute to a moderate second quarter rise from the advanced first quarter pace. Nonresidential construction outlays were little changed in June and in the second quarter as a whole. However, public construction outlays in June apparently remained below their record first quarter average.

Construction costs have continued to show little further rise this year. In June they averaged less than 5 per cent above a year earlier, according to the seasonally adjusted Census index. This increase compares with an average advance of 7 per cent during 1971 as a whole.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1972				
	QI(r) 1/	QII(p)	April(r)	May(p)	June 2/
Total	121.8	121.5	120.6	121.8	122.0
Private	90.7	91.8	91.7	91.7	92.0
Residential	51.5	52.5	52.7	52.2	52.5
Nonresidential	39.1	39.3	38.9	39.5	39.6
Public	31.2	29.7	28.9	30.2	30.0
State and local	26.6	25.4	24.8	25.6	25.6
Federal	4.5	4.3	4.2	4.5	4.3

1/ Reflects revision of series to incorporate more complete data and new seasonal adjustement factors back to January 1969. For QI, 1972, the major effect of the revision was to raise private nonresidential construction outlays by 2 per cent. Other changes were quite minor.
2/ Data for June 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Sales of used homes in May were running 15 per cent above the advanced level of a year earlier. The median price of such homes increased further--to $27,140, partly reflecting upgraded demands.

Labor market. Demand for labor showed signs of some additional strength in June. Although nonfarm payroll employment remained at the (upward revised) May level, total civilian employment advanced appreciably and the factory workweek edged up.

The seasonally adjusted unemployment rate dropped to 5.5 per cent in June from 5.9 per cent in May. However, all of the decline occurred among younger workers, 16 to 24 years; their number in the labor force declined by 300,000. In part the decline in youth unemployment reflected seasonal adjustment problems (also evident in other recent years) associated with younger workers entering the labor market at the end of the school year. Unemployment among adult workers showed no significant improvement over the month--the rate for males 25 years and over edged down 0.1 percentage point to 3.3 per cent while rates for household heads and married men remained unchanged. Total (household) employment rose by 275,000 from the May level, continuing the upward treand which began last summer as an increase of 440,000 for adults was partly offset by a decline in employment of teenagers.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971		1972	
	June	December	May	June
Total	5.8	6.0	5.9	5.5
Men				
20 to 24 years	10.1	10.5	9.4	8.3
25 and over	3.4	3.5	3.4	3.3
Women				
20 to 24 years	10.1	9.6	10.6	9.2
25 and over	4.7	5.0	4.8	4.8
Teenagers	16.2	17.3	15.7	14.5
Household heads	3.7	3.8	3.6	3.6

In contrast to the household series, the preliminary estimate of nonfarm payroll employment in June showed essentially no increase from May, after rising rapidly for several months. Declines in manufacturing and Federal government were about offset by advances in services and State and local government, while the trade sector was unchanged. Over the past year nonfarm payroll employment has increased by 1.9 million including over 300,000 manufacturing. Employment gains have been brisk in trade, services and State and local government, and the growth of factory jobs has been accelerating. Manufacturing employment in June, however, was still 1.3 million below the high in the summer of 1969.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Change from year ago*	Change from preceding quarter			
	1972	1971		1972	
	June	Q III	Q IV	QI	Q II
Total	1919	- 37	387	756	672
Goods-producing	279	-168	38	170	177
Manufacturing	303	-115	41	116	221
Mining	- 19	- 14	- 56	63	- 12
Construction	- 10	- 39	53	- 9	- 32
Service-producing	1640	130	350	586	493
Transportation & p.u.	52	- 53	- 8	59	33
Trade	518	88	70	199	162
Finance & services	587	100	138	160	168
Federal government	- 8	- 2	15	1	- 15
State & local gov't.	491	- 3	135	167	145

* Not seasonally adjusted.

Another sign of recent strengthening in demand for labor has been firmness in the workweek. In the second quarter, average weekly hours of production and nonsupervisory workers on private payrolls edged up 0.1 hour to 37.2 hours, while the average factory workweek jumped 0.3 hours to 40.6 hours.

Earnings. Average hourly earnings of production workers on private nonfarm payrolls (adjusted for inter-industry shifts and in manufacturing for overtime as well) rose by small amounts in both May and June--according to preliminary data--with virtually no increases occurring outside of manufacturing. Due to a sharp rise in April, however, the annual rate of increase in hourly earnings in the second quarter about equaled the Pay Board guideline of 5.5 per cent--a full percentage point less than the rate of rise prior to the freeze. As compared to the entire period of the economic stabilization program (August-June), the rate of wage rise in the second quarter slowed in most industries.

HOURLY EARNINGS INDEX*
(Per cent change, seasonally adjusted, annual rates)

	Jan. 1971- Aug. 1971	Aug. 1971- June 1972	QI 1972- QII 1972	Apr. 1972- June 1972
Private nonfarm	6.7	5.6	5.6	1.8
Manufacturing	6.1	6.1	5.6	5.8
Mining	8.0	6.5	4.2	3.1
Construction	9.0	5.1	4.8	.8
Transportation & P.U.	8.0	10.0	10.0	1.3
Trade	6.5	4.2	4.2	.4
Finance	7.6	4.1	7.3	-3.1
Services	4.4	4.8	4.4	-2.2

* Adjusted for inter-industry shifts and, in manufacturing only, for over time hours.

The Pay Board has reported that the weighted average of approved wage increases during the four weeks ending June 23 for Category I and II cases (firms with over 1,000 employees) amounted to 5.5 per cent and affected 2.6 million workers. For Category I cases alone (5,000 or more employees) the weighted average increase approved for new contracts came to 6.1 per cent and for deferred increases to 5.5 per cent.

Wholesale prices. The wholesale price index rose at a seasonally adjusted annual rate of 5.7 per cent between May and June. Industrial commodities increased at a rate of about 5 per cent, somewhat faster than during the first half of this year. An increase in prices of materials, especially intermediate materials, contributed significantly to the rapid advance. Prices for both producer and consumer nonfood finished goods rose but at rates slower than in either the pre- or post-freeze periods.

WHOLESALE PRICES

(Percentage changes at seasonally adjusted annual rates)

	Pre-stab. period	Phase I	Phase II		Phase I & II
	Dec. 1970 to Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to June 1972	May 1972 to June 1972	Aug. 1971 to June 1972
All commodities	5.2	- .2	5.2	5.7	3.6
Farm products 1/	6.5	1.1	7.6	6.2	5.6
Industrial commodities	4.7	- .5	4.3	5.1	2.8
Crude materials 2/	3.3	2.3	8.5	6.7	6.6
Intermediate materials 3/	6.5	- .7	4.8	7.3	3.1
Finished goods 4/	2.7	- .9	3.3	2.4	2.0
Producer	3.7	-2.0	4.1	3.1	2.2
Consumer	2.2	- .4	2.9	2.1	1.9

1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Excludes foods.

Prices of farm and food products rose at a seasonally adjusted annual rate of more than 6 per cent from May to June as further sharp increases were posted for livestock and meat. Increases were also large for live poultry and fresh vegetables.

Announcements of pricing actions since the mid-June pricing date for the WPI include those concerned with extending controls to unprocessed foods previously exempt from price controls, proposed increases for automobiles and trucks, and lower prices for copper. The President's extension of price controls t some agricultural products applies primarily to fresh fruits and vegetables, eggs, and seafood and in application will be similar to controls now on meats. That is, the initial price of these products can still be set by supply and demand, but wholesalers and retailers will be allowed only their customary initial percentage markups.

Three automobile producers have asked the Price Commission for approval to increase prices of 1973-model cars and trucks by amounts averaging from 2 to 5 per cent or from $90 to $180 per vehicle, with the largest producer requesting the smallest increase. About $80 of these increases was requested to cover costs of Government-required safety and exhaust-emission equipment.

Copper prices were cut by 2 cents a pound by some major U.S. producers; low prices in outside (nonproducer) markets spurred the reduction. The lower copper prices can be expected to become industry-wide and to be reflected in prices of fabricated copper products.

Consumer prices. The consumer price index rose in May at a seasonally adjusted annual rate of 4 per cent. Food prices fell at a 1 per cent rate, seasonally adjusted, but prices of other commodities --boosteu by sharp jumps for gasoline and used cars--rose at over a 6 per cent annual rate. The rate of rise in service costs, however, was under 3 per cent. Since November, consumer prices have advanced at a 3.5 per cent (seasonally adjusted) annual rate, and since August at a 2.9 per cent rate.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Pre-stabilization period	Phase I	Phase II	
	Dec 197u to Aug 1971	Aug 1971 to Nov 1971	Nov 1971 to May 1972	Apr 1972 to May 1972
All items	3.8	1.9	3.5	4.0
Food	5.0	1.7	4.4	-1.0
Commodities less food	2.9	.0	2.9	6.2
Services 1/	4.6	3.1	3.6	2.8
Addendum:				
All items less mortgage costs 2/	4.6	1.3	3.5	3.0
Services less h me finance 1/ 2/	6.7	1.9	3.5	2.8
Commodities less food, used cars, home purchases 3/	2.5	.3	2.8	5.2

1/ Not seasonally adjusted.
2/ Confidential: Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

The May index for food reflects the second monthly decline in beef and pork prices, following reductions at the wholesale level. However, according to the Department of Agriculture preliminary (confidential) estimates based on its chain store sample, retail meat prices have risen substantially between the CPI's first-week pricing dates in May and June. But these estimates also indicate a squeeze on margins for beef, as well as pork, by mid-June which, with the continued advance in prices at the farm and wholesale levels, points to further advances at retail. Some of the increase will be seasonal, especially for pork which usually rises over 3 per cent in price between May and July (4.5 per cent between May and August). Improvement in meat supplies is still expected by late August.

SELECTED COMMODITY PRICES
(Percentage changes, seasonally adjusted, annual rates)

	Pre-stabilization peri d	Phase I	Phase II	
	Dec 1970 to Aug 1971	Aug 1971 to Nov 1971	Nov 1971 to May 1972	Apr 1972 to May 1972
Meats	2.2	8.9	11.6	-13.3
Gasoline and motor oil	.1	- .7	- .9	19.7
Used cars 1/	1.9	-6.3	-1.1	10.5

1/ Seasonally adjusted estimates confidential, not for publication.

Nonfood commodity price increases were fairly widespread in May, but the acceleration was largely due to sharp reversals in gasoline and used car prices. These two groups still show slight net declines since November, however. Advances in rent and other service components continued moderate.

The 3.5 per cent rate of rise in consumer prices over the six months of Phase II is not much less than that during the eight months of 1971 immediately preceding the freeze, when the rise was held down by sharply falling mortgage costs, but is still well below the increases of preceding years. Food prices, mainly meats, contributed significantly to the Phase II increase, while service cost advances slowed notably--for rents, medical care, and most other services except utilities.

The nonfood commodity price rise over the Phase II period--close to a 3 per cent annual rate--was similar to that in the first eight months of 1971 but considerably less than in 1968-70. Significant advances were registered for new cars, apparel, household durables and most other items except gasoline and used cars. Part of the six-month increase may be considered "catch-up", and including the freeze period reduces the rate to 2 per cent. The Price Commission is studying requests for auto price increases and measures to limit the impact on apparel prices of advances for fibers and textiles. Among the measures considered is application of the dollar-for-dollar passthrough adopted for leather costs to shoe manufacturers.

The Price Commission recently announced a 3 per cent "cap" on increases for nonexempt service industries (2.5 per cent for professional services), affecting about 5 per cent of firms and 30 to 40 per cent of sales. Most service firms had been included in the Cost of Living Council's

May ruling which exempted from controls those with 60 or fewer employees. The services affected represent only part of the services component in consumer price measures. Major items under separate regulations permitting larger increases include rent and utilities, which account for about one-fourth of the weight of services in the CPI and about one-third if home financing costs are excluded (and over 40 per cent of the consumer services component of the GNP, in which rent is used as a proxy for the cost of services of owner-occupied homes). The weight of medical care services, also under separate regulation, is an additional 15 per cent.

DOMESTIC FINANCIAL SITUATION

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
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	June	33.1	8.4	12.9	8.3
Reserves available (RPD's)	June	30.2	8.9	7.4	7.0
Money supply					
M1	June p	236.5	4.1	5.1	4.9
M2	June p	490.3	9.6	8.5	8.8
M3	June p	765.7	10.4	10.6	11.3
Time and savings deposits (Less CDs)	June	253.8	14.8	11.8	9.6
CDs (dollar change)	June	37.1	0.8	3.7	7.7
Savings flows (S&Ls + MSBs)	June	275.4	12.3	14.4	16.1
Bank credit (end of month)	June	516.3	--	7.3	11.2
Market yields and stock prices			Percentage or index points		
Federal funds	wk. endg. July 5	4.61	.13	.36	-.57
Treasury bill (90 day)	wk. endg. July 5	4.06	-.20	.45	-1.31
Commercial paper (90-119 day)	wk. endg. July 5	4.82	.34	.41	-.93
New corporate bonds Aaa	wk. endg. July 7	7.38	.13	.05	-.49
Municipal bonds (Bond Buyer)	1 day July 6	5.43	.12	-.06	-.57
FNMA auction yield	wk. endg. June 26	7.62	--	.08	-.30
Dividends/price ratio (Common stocks)	wk. endg. June 28	2.90	.07	.02	-.20
NYSE index (12/31/65+50)	end of day July 10	59.84	.49	-1.14	-4.08

Credit demands

		Net change or gross offerings: Current month 1972	Current month 1971	Year to date 1972	Year to date 1971
Business loans at commercial banks	June	-1.0	-0.5	4.1	2.3
Consumer instalment credit outstanding	May	1.4	0.5	5.5	1.8
Mortgage debt outst. (major holders)	May	4.7^{e}	3.3	19.4	13.6
Corporate bonds (public offerings)	July	1.7^{e}	1.3	7.0	16.2
Municipal long-term bonds (gross offerings)	July	1.9^{e}	2.0	14.0	14.9
Federally sponsored Agcy. (net borrowing)	July	0.3^{e}	0.9	2.1^{e}	-1.1
U.S. Treasury (net cash borrowing)	July	2.1^{e}	4.2	0.3^{e}	7.4
Total of above items		11.1	11.7	52.4	55.1

e - Estimated.

DOMESTIC FINANCIAL SITUATION

Interest rates on short-term securities have advanced 10 to 30 basis points on balance since the June Committee meeting. In long-term markets, rates on corporate and municipal bonds rose throughout June, as investors exhibited caution in the face of rising short rates and concern about price developments. Corporate public bond volume in June was the lowest in almost a year and rates tended to level off early in July. Mortgage credit demands remained strong, but given the ample availability of credit, it is likely that mortgage rates in the primary market were unchanged in June. Inflows of funds to the nonbank thrift institutions remained sizable in June, and these institutions apparently continued to extend new mortgage commitments at a rapid rate.

Consumer-type time deposits at commercial banks grew at a faster rate in June than in other months of the quarter, even though yields on open-market securities were rising over the period. Expansion in large negotiable CD's slowed in June from the rapid rate of April and May. With CD growth reduced, expansion in demand deposits moderate, and a sharp drop in U.S. Government deposits, the bank credit proxy rose at a modest rate in June.

End-of-month bank credit figures indicate that banks continued to extend real estate and consumer loans in volume during June. But business loans appeared to decline appreciably following strong gains earlier this year. This probably is a transitory phenomenon, reflecting in part seasonal adjustment difficulties. Banks contacted by Reserve Banks continue to report fairly strong loan demand, particularly outside New York. Late in June the prime rate was increased to 5-1/4 per cent, and a few banks with floating rates moved higher early in July.

Outlook. Short-term interest rates are expected to rise further as the summer progresses in view of the continued strength in prospect for economic activity and a resumption of Treasury borrowing. However, Treasury borrowing in the third quarter has been scaled down to around $5 billion, more than a third less than anticipated a month ago. With a strong cash position--bolstered by sales of special certificates to foreign central banks--the Treasury is not expected to raise new cash, other than through additions to the weekly bill auctions, prior to the mid-August refunding. But Treasury borrowing in the fourth quarter is likely to be substantial.

Banks are likely to experience appreciable business loan demands over the quarter in association with the projected strong growth in GNP, including inventory accumulation. While deposit inflows are expected to be generally moderate, given a rise in short-term market rates, banks are likely to attract sufficient funds to acquire other loans and modest amounts of securities.

While deposit flows to nonbank thrift institutions may slow a little further in coming months, mortgage credit supplies will probably continue ample. The demand for new mortgage commitments should ease given the projected decline in housing starts and a seasonal slowdown in sales of new dwellings. Hence, mortgage interest rates could remain relatively stable throughout the third quarter.

In bond markets, demands for credit over the summer are likely to be little changed from recent months and will probably not be a source of significant upward interest rate pressure. However, there could be some upward drift in bond yields in sympathy with rising short rates although there is plenty of scope in terms of previous rate relationships for interest rate spreads to narrow.

Monetary aggregates. M_1 grew at a 4.1 per cent annual rate in June according to preliminary estimates. For the second quarter as a whole, M_1 expanded at roughly a 5 per cent annual rate, well below the rate of over 9 per cent realized in the first quarter.

Private demand deposits at both reserve city and country banks showed unexpected weakness near the end of June and into early July. The shortfall at reserve city banks may have reflected at least in part dollar outflows associated with the floating of the pound and the subsequent concern over the dollar; foreign central banks absorbed some of these outflows and invested some of the proceeds in special U.S. Treasury security issues. The weakness at country banks was widespread geographically and thus did not appear to be related to the recent floods in a number of eastern states.

Expansion in time deposits other than large negotiable CD's accelerated somewhat further in June, reaching an annual rate of almost 15 per cent. The acceleration occurred despite a steady upward drift in yields on competing open-market instruments and brought the June rate of increase in M_2 to just under 10 per cent. This was a little ahead of the 8.5 per cent rate recorded for the second quarter as a whole, but significantly below the rapid 13 per cent pace of the first quarter.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971	1972				
	QIV	QI	QIIp	Apr.	May	Junep
		Per cent at annual rates				
M_1 (Currency plus private demand deposits)	1.1	9.3	5.1	7.7	3.6	4.1
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	8.0	13.3	8.5	7.2	8.4	9.6
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	9.6	15.5	n.a.	10.9	10.2	n.a.
Adjusted bank credit proxy	9.7	11.3	11.1	13.5	14.4	5.0
Time and savings deposits at commercial banks						
a. Total	15.9	14.8	15.7	12.4	17.8	16.3
b. Other than large CD's	14.7	17.1	11.8	7.8	12.6	14.8
		Billions of dollars 1/				
Memorandum:						
a. U.S. Government demand deposits	-.4	--	- .7	1.3	--	-2.1
b. Negotiable CD's	1.8	-.1	3.7	1.3	1.6	.8
c. Nondeposit sources of funds	--	-.3	--	-.2	+.2	--

p - Preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages, not annualized.

In contrast to M_1 and M_2, the adjusted credit proxy slowed its rate of increase considerably in June, growing at a 5 per cent annual rate. Given the rapid rates of expansion in the two preceding months, however, the rate of increase for the entire second quarter--around 11 per cent--was essentially the same as in the first quarter.

A large part of the credit proxy deceleration in June reflected a reduction of more than $2 billion in U.S. Government deposits, but large negotiable CD's outstanding also expanded less rapidly than in other recent months. Following seasonally adjusted increases averaging almost $1.5 billion in April and May, the growth in such deposits dropped back to $800 million in June, with most of the growth coming prior to the middle of the month. Banks faced sizable CD maturities over the June tax date, but run-offs over that period were moderate.

In view of the upward drift of rates on competing market instruments, banks had to increase CD offering rates over the month. Rises ranged from over 40 basis points for issues maturing in less than 6 months to slightly less than half that amount for issues maturing in over a year.

Bank credit. Total credit at all commercial banks (end-of-month series) also decelerated significantly in June, showing no seasonally adjusted increase for the first time since December 1969.[1/] This contrasts sharply with the rapid expansion in the preceding month, even after taking into account the fact that the May increase was

1/ The bank credit estimates are subject to greater than usual uncertainty this month since they include an adjustment for "window dressing" between the last Wednesday of the month and June 30.

inflated by unusual credit movements that biased the end of April figure downward. For the second quarter as a whole, this measure of bank credit increased at just over a 7 per cent annual rate, significantly below the 15 per cent rate for the first quarter.

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
SOLD TO AFFILIATES 1/
(Seasonally adjusted changes at annual percentage rates)

	1971	1972				
	QIV	QI	QII	Apr.	May	June
Total loans & investments 2/	11.1	15.1	7.3	3.6	18.4	--
U.S. Treasury securities	5.3	9.9	3.9	3.9	7.7	--
Other securities	20.1	16.1	4.8	-1.1	23.2	-7.6
Total loans 2/	9.4	15.7	8.8 3/	5.0	18.8	2.5 3/
Business loans 2/	-3.4	9.6	4.3 3/	12.0	10.9	-9.8 3/
Real estate loans	14.2	14.7	16.6	14.2	16.9	18.0
Consumer loans	13.6	11.7	12.8	8.5	17.0r	12.5

1/ Last-Wednesday-of-month series. r - Revised
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ June figures have been adjusted to exclude a reclassification of loans by a major New York City bank.

The weakness in bank credit in June was in securities holdings and in business loans; consumer and real estate loans continued to grow at a rapid rate. Holdings of U.S. Government securities were unchanged after seasonal adjustment, while holdings of other securities declined moderately. The weakness in holdings of other securities was concentrated at banks outside New York City, with holdings of both short- and longer-term issues showing weaker than seasonal movements.

The sharp decline in business loans (at a 10 per cent annual rate) is particularly striking, following on the heels of five months of strong growth. Some easing in June would not have been surprising; as noted in the June Greenbook, the expansion in business loans since the beginning of the year has been more rapid than expected in light of corporate financial positions and the moderate expansion in inventories. Nonetheless, the shortfall from the growth in preceding months is far larger than anticipated.

In part, the size of the June decline in business loans may reflect seasonal adjustment problems, but the drop appears larger than can be explained on that basis. A good deal of the decline reflects a continued lack of vigor at New York City banks, although business loans were strong there during the first week of July.[2/] In addition, however, weekly reporting banks outside New York City failed for the first time in a number of months to more than offset this weakness with a larger-than-seasonal rise in such loans. Through the last Wednesday of June, such banks showed an increase, seasonally unadjusted, about the same as in the corresponding period last year, when seasonally adjusted business loans at all commercial banks declined by about $500 million.

An effort was made through the Reserve Bank Contact Group to uncover the reasons for the unexpected slackening of business loan growth outside New York City. Most of the commercial banks contacted,

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2/ The June weakness probably explains the lag by several major New York institutions in following the general increase to 5-1/4 per cent in the prime lending rate late in the month.

however, reported no significant slowdown in demand, and where weakness was acknowledged, it was attributed to a temporary bunching of repayments or other transitory factors. In general, continued strong business loan demand was anticipated in the near future.

The results of such informal surveys must be interpreted cautiously, of course. But they do suggest--when considered together with the performance of business loans in other recent months and the prospects for increased inventory accumulation in the months ahead--that the June decline in business loans may well reflect transitory phenomena and that growth in such loans will rebound shortly, even if not to as rapid a pace as during the first five months of the year.

Consumer credit. Consumer instalment credit continued to expand rapidly in May, providing consumers with additional credit at a record $17 billion annual rate. Despite the rapid expansion in outstandings, consumers' instalment debt is no higher in relation to disposable income than in most other years since 1966, although it has risen from the reduced 1971 level. Similarly, repayments are no higher a proportion of disposable income than in other recent years.

New information on interest rates and terms charged consumers for finance company auto loans indicates that between June 1971, the first month for which figures were collected, and May 1972, average interest charges on new car loans declined almost continually. Average interest charges on used car loans have been more volatile, but although rising in recent months, are still below the rates charged last summer. During this period loan terms have shown little evidence of liberalization--both loan amounts in relation to value of car, and average maturities, were at approximately the same level this May as in June 1971. This new information on rates and terms is being collected for the Committee on Interest and Dividends, and will be published monthly. A summary of the data since June 1971 is given in Appendix A.

CONSUMER INSTALMENT CREDIT

	Net increase in outstandings (Billions of dollars)	Average Outstandings as a percentage of disposable income	Repayments as a percentage of disposable income
1966	$6.2	14.4	14.9
1967	3.4	14.3	14.9
1968	9.0	14.2	14.9
1969	8.3	14.7	14.9
1970	3.0	14.4	14.7
1971	8.4	13.9	14.7
1972			
Jan	7.6		
Feb	11.6	14.3 1/	14.9 1/
Mar	16.4		
Apr	13.2		--
May	17.3	14.4 2/	14.7 2/

1/ First quarter.
2/ May as a percentage of projected second quarter disposable income.

Nonbank financial institutions and mortgage markets. According to estimates based on sample data, the rate of deposit growth at thrift institutions rose during June to an annual rate of over 13 per cent--down from the very rapid pace of the first quarter, but still quite strong.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.8	12.8
1972 - QI	14.3	23.4	20.5
QIIe	10.8	14.6	13.4
April	11.7	17.6	15.8
May p/	9.0	10.5	10.0
June e/	12.0	14.1	13.4

p/ Preliminary
e/ Estimated on the basis of sample data.

During the month of May, new mortgage commitments at S&Ls reached a record seasonally adjusted high. Moreover, the ratio of outstanding mortgage commitments to recent cash flow was higher in May than it has been recently. At the same time, there was little net change in FHLB advances and the FHLB banks continued to maintain substantial liquidity. This strong commitment picture suggests that S&Ls expect to have ample funds available for mortgages--relying on continued high deposit inflows and mortgage repayments, and if need be, the availability of funds through the FHLB system.

Despite the strong demand for residential mortgage credit particularly at S&Ls, rates on home mortgages have been relatively stable this year. Recent trade and field reports generally indicate that originators expect home mortgage rates in the primary market to change little further, if at all, over the next several months. However, some mortgage bankers are looking for a near-term rise in secondary market prices for home loans insured by FHA owing to a shortage of such mortgages caused by a slowdown in processing at a number of FHA field offices in an effort to upgrade loan quality. Anticipation of higher mortgage prices has led to an increase in the volume of speculative loan warehousing, despite a further rise in rates charged on warehousing credit. Meanwhile, some borrowing has apparently been shifted from FHA insured to high-ratio conventional mortgages on which processing is faster than on government-underwritten loans.

In the latest FNMA auction, the average yield on forward commitments to purchase FHA and VA home loans remained at 7.62 per cent--uncnanged since the June FOMC meeting. The amount of offers increased somewhat, but was still low relative to the volume in the late spring when mortgage bankers sought to cover their uncommitted warehoused mortgages in expectation of a decline in mortgage prices.

FNMA PURCHASE AUCTION

	Amount of total offers: Received	Amount of total offers: Accepted	Per cent of offers accepted	4-month commitments: Discount (points)	4-month commitments: Private market yield (per cent)
	(millions of dollars)				
1972 - High	365 (5/1)	336 (5/1)	92 (5/1)	5.2 (5/1, 5/15)	7.63 (5/1, 5/15)
Low	69 (2/22)	44 (2/22)	42 (3/20)	4.6 (3/20)	7.54 (3/20)
May 1	365	336	92	5.2	7.63
15	266	188	71	5.2	7.63
30	133	76	57	5.1	7.62
June 12	84	48	58	5.1	7.62
26	98	77	78	5.1	7.62
July 10	135	92	68	5.1	7.62

NOTE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock assuming prepayment period of 15 years for 30-year 7 per cent Government-underwritten mortgages. Implicit yields shown are gross, before deduction of 38 basis point fee paid by investors to servicers.

Long-term securities. Yields on corporate and municipal long-term bonds continued to rise throughout June; but the rate of rise moderated in the latter part of the month. Volume dropped sharply in the holiday-shortened first week of July and upward yield pressures moderated. As of July 8, long-term yields were still 5 to 10 basis points below their April highs. Anticipation of a future uptrend in yields and the recent additions to the forward bond calendar contributed to investor resistance to any attempts by underwriters to raise prices. Yields in the long-term Government market, where dealers had a net short position in securities over 1 year, remained roughly stable.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa 1/ Corporate bonds	Long-term 2/ State and local bonds	U. S. Gov't. (10-year constant maturity)
1971			
Low	6.76 (1/25)	4.97 (10/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/30)
1972			
Low	6.86 (1/14)	4.99 (1/14)	5.87 (1/14)
High	7.42 (4/4)	5.54 (4/4)	6.22 (4/21)
Week Ending:			
June 2	7.09	5.15	6.07
9	7.25	5.31	6.12
16	7.26	5.36	6.10
23	7.31	5.43	6.09
30	7.38	5.43	6.13 r/
July 7	7.38	5.43	6.14 p/

1/ With call protection (includes some issues with 10-year protection).
2/ Bond Buyer (mixed qualities).
p/ Preliminary.
r/ Revised.

Stock prices declined throughout much of June as investors exhibited concern over price developments, international monetary uncertainties, prospects for tax reform, and other factors. However, the average level of stock prices remained almost unchanged from May to June, and stock prices in early July began to rise. Trading volume on all major exchanges has been moderate. Limited net buying interest on the part of individuals has been evident in a variety of ways for some months. At mutual funds, redemptions in May exceeded sales for the fourth consecutive month, with net sales amounting to more than $200 million.

Rising bond yields in June discouraged some prospective issuers, and public bond volume was only slightly over $1.3 billion. In recent weeks, several financial firms and a few industrials filed large bond issues, most of which were tentatively scheduled for late July. Several, however, have already been accelerated into this week. Consequently, the staff estimate of public bond volume for this month has been raised to $1.7 billion, and August is expected to be about $1.4 billion. Both private placements and new equity issues remain at high levels.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

		1972			
	1971	May e/	June e/	July f/	August f/
Corporate securities - total	3,758	3,300	3,325	3,400	2,800
Public bonds	2,065	1,600	1,325	1,700	1,400
Privately placed bonds	613	700	800	600	500
Stock	1,080	1,000	1,200	1,100	900
State and local government securities	2,080	1,947	2,200	2,000	1,800

e/ Estimated.
f/ Forecast.

Long-term offerings by State and local governments in June amounted to $2.2 billion, of which about a tenth represented advance refunding bonds. These issues were marketed in June in order to avoid new IRS regulations with respect to arbigrage bonds which went into effect on July 1.

Short-term security markets. In general, short-term interest rates have risen 10 to 30 basis points since the June 20 FOMC meeting, reaching new highs for the year. In the bill market, longer term bills have registered larger yield increases than shorter term bills, so that yield spreads between 3-month and 1-year bills, for example, widened from about 70 basis points at the time of the last meeting to around 85 basis points presently. This suggests that 3 month bills, currently bid at about 4.13 per cent, may be out of line with other rates because of temporary supply-demand imbalances generated by foreign central bank activity and/or because of investor expectations that short rates will rise more rapidly in coming months.

SELECTED SHORT-TERM INTEREST RATES

	1972			Basis point change
	June 21	July 5	July 11	June 21-July 11
Federal funds	4.39 1/	4.61 1/	4.69 2/	30
Treasury bills				
3 month	3.97	4.08	4.13	16
6 month	4.39	4.58	4.64	25
1 year	4.68	4.98	4.98	30
Federal agency				
1 year	5.09	5.37	5.37	28
Commercial paper				
90-119 day	4.63	4.88	4.88 3/	25
10-89 day CD's	4.63	4.75	4.75 3/	12

1/ Weekly average.
2/ 6-day average.
3/ Latest available data are for June 7.

With reserve injections needed to reach target paths, the Desk purchased about $1.1 billion of bills in the two statement weeks ending July 5. About one-third of these purchases were directly in the market and the balance was from foreign central banks that either needed dollar balances to support their currencies in foreign exchange markets or were selling bills in order to purchase coupon issues. In the current statement week, there was a large demand for Treasury securities from foreign accounts as a result of sizeable dollar outflows from this country. About half of this demand was accommodated by investment of funds in Treasury special issues. The remainder was satisfied by foreign accounts purchasing $130 million of bills directly in the market, and, $630 million of bills from the System open market account. The System satisfied part of the foreign central bank demand for bills because of a need to absorb reserves provided by technical factors, mainly float.

A rise in rates on private short-term obligations--which has been accompanied by boosts in the prime rate--appears to be related to moderately tighter conditions in the money market and to some continuing increase in the volume of commercial and finance company paper coming to market. Data for May show an increase of around $200 million over April, with a strong rise in non-bank related directly-placed paper. Preliminary weekly data for June seem to show further moderate increases.

COMMERCIAL AND FINANCE COMPANY PAPER 1/
(End-of-month data, in millions of dollars)

	May 1972 net change from	
	December 1971	April 1971
Total commercial and finance paper	217	249
Bank related	26	-177
Nonbank related	191	426
Dealer placed	60	- 63
Directly placed	131	489

1/ Combines seasonally adjusted nonbank related paper and seasonally unadjusted bank-related paper.

Federal finance. Final figures are not yet available for the fiscal year just completed, but the budget deficit is expected to be $3 to $4 billion below the official June 5 estimate of $26 billion. A more precise estimate of the budget deficit in fiscal 1972 cannot be made now, largely because we do not know whether the planned acceleration of payments on the last days of the fiscal year was completely carried out (and recorded) in fiscal year 1972. In any case, very little economic significance can be attached to such a speed-up in payments.

With respect to fiscal 1973, staff calculations indicate that the Administration estimate (Mid-Year Budget Review of June 5th) of a $27 billion deficit is probably still attainable despite Congressional action on various expenditure bills and also taking into account recent pronouncements on the cost of accelerated activity in Vietnam. Staff projections now indicate that in fiscal 1973 Federal receipts and expenditures may be about $3.0 billion higher than estimated by the Administration on June 5, and about $1.0 higher than estimated by the staff in the June Chart Show. On the expenditures side our estimate of the incremental cost of the stepped-up air war in Vietnam has been increased $0.5 billion to a $2.5 billion level, in line with recent statements by the Director of OMB. The Administration's June budget estimate made no provision for this item. Our estimate of outlays also has been raised as a result of enactment of a bill extending for six months a program that provides 13 weeks of additional unemployment benefits. Several other bills are pending that would, if enacted, further increase staff estimates of outlays.

The recently enacted social security measure, which includes a 20 per cent general benefit increase effective September 1 but with payments not beginning until October and a boost in social security taxes effective January 1, 1973, has increased staff estimates of both Federal receipts and expenditures by $2.0 billion in calendar 1972. However, the increase in benefits has no effect on our estimate of total outlays in fiscal 1973. While the increase is much larger than the 12-1/2 per cent previously assumed by the staff, the measure, as enacted, did not contain two benefit provisions previously incorporated in staff projections: (1) the widows benefit and other liberalization measures proposed by the Administration which cost $1.4 billion annually, and (2) an earlier effective date and a retroactive (to July 1) payment. Unlike the general social security benefit increase, the liberalization measures were not separated from HR-1, the social security-welfare reform bill that is not expected to be enacted in time to affect fiscal year 1973 outlays.

The staff estimate of fiscal 1973 receipts is $3.0 billion above the Administration June 5 estimate mostly because of our higher income assumptions. In addition, the social security tax increase has raised our fiscal 1973 receipts estimate by about $0.5 billion.

Because of the delay in the increase in social security benefits, our high employment budget figures now show a smaller shift toward deficit in the third quarter of this year than previously estimated. On a half-year basis, however, the outlook has not changed significantly as our projection continues to show a sharp shift toward deficit in the second half of this year and again in the first half of calendar year 1973.

The end-of-June cash balance at the Treasury was nearly $10 billion, about $2.2 billion above the level projected in the June Greenbook. Apparently, receipts in June were considerably higher and expenditures somewhat lower than projected. In addition, the balance was unexpectedly increased in late June and early July by the purchase of $1.5 billion of special Treasury issues by foreign central banks. The present staff projection assumes the Treasury will raise about $1.0 billion in July and August through additions to the weekly bill auctions and another $1.0 billion by sale of remaining Treasury bills previously acquired from the German central bank in an exchange of special issues for marketable issues. No further market borrowing is expected in July but, assuming no additional foreign purchases of special issues, the Treasury is expected to borrow as much as $3.0 billion in the market in August, perhaps in conjunction with the quarterly refunding. Net Treasury borrowing for the current half-year is still expected to be large, perhaps $16 billion.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June	July	Aug.	Sept.
Total net borrowing	-3.0	2.1	3.1	.7
Weekly and monthly bills	- .4	.6	.4	
Tax bills	-3.0	--	--	--
Coupon issues	-1.2	--	--	--
As yet unspecified new borrowing	--	--	3.0	1.0
Other (debt repayments, etc.)	1.6	1.5	-.3	-.3
Plus: Other net financial sources[a]	.2	-.4	-.4	1.0
Plus: Budget surplus or deficit (-)	3.2	-6.3	-3.3	2.6
Equals: Change in cash balance	.4[b]	-4.6	-.6	4.3
Memoranda: Level of cash balance end of period	10.1[b]	5.5	4.9	9.2
Derivation of budget surplus or deficit:				
Budget receipts	25.7	14.8	18.4	23.9
Budget outlays	22.5	21.1	21.7	21.3
Maturing coupon issues held by public	1.1[c]	--	2.3	1.8
Net agency borrowing	.6	.3	.2	.5

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ This maturity was redeemed in cash.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal 1972 e/		Fiscal 1973 e/		Calendar	Calendar Quarters F. R. B. Staff Estimates					
	Mid-year	F.R.	Mid-year	F.R.	Year	1972				1973	
	Review	Board	Review	Board	1972 1/	I*	II	III	IV	I	II
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-26.0	-22.5	-27.0	-27.0	-21.3	-10.5	6.4	-7.1	-10.1	-13.0	3.3
Receipts	207.0	208.7	223.0	226.0	224.0	48.1	67.5	57.0	51.4	51.3	66.4
Outlays	233.0	231.2	250.0	253.0	245.3	58.6	61.1	64.1	61.5	64.3	63.1
Means of financing:											
Net borrowing from the public	n.a.	19.8	n.a.	22.6	13.5	3.9	-5.7	5.9	9.4	8.3	-1.0
Decrease in cash operating balance	n.a.	-1.3	n.a.	3.1	3.3	3.6	-2.4	.9	1.2	2.7	-1.7
Other 2/	n.a.	4.0	n.a.	1.0	4.3	3.0	1.7	.2	-.6	2.0	-.6
Cash operating balance, end of period	n.a.	10.1	n.a.	7.0	8.0	7.7	10.1	9.2	8.0	5.3	7.0
Memo: Net agency borrowing 3/	n.a.	4.9	n.a.	n.e.	n.e.	.4	1.4	.9	n.e.	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	n.a.	-20.7	n.a.	-29.3	-20.0	-13.2	-17.0	-21.8	-27.8	-31.6	-36.2
Receipts	n.a.	212.5	n.a.	232.7	227.8	222.2	226.8	227.6	234.6	235.9	232.5
Expenditures	n.a.	233.2	n.a.	262.0	247.8	235.5	243.8	249.4	262.4	267.5	268.7
High employment surplus/deficit (NIA basis) 1/	n.a.	4.3	n.a.	-12.1	-.8	9.2	.6	-1.8	-11.0	-15.8	-19.8

*Actual e--projected n.e.--not estimated n.a.--not available

1/ Estimated by F. R. Board Staff.

2/ Includes such items as deposit fund accounts and clearing accounts.

3/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

INTERNATIONAL DEVELOPMENTS

7/12/72

III -- T - 1
U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1971	1972p/			
	Year	QI	Mar.*	Apr.*	May *
Goods and services, net 1/	727	-1,147			
Trade balance 2/	-2,689	-1,673	-631	-728	-610
Exports 2/	42,770	11,809	3,849	3,711	3,865
Imports 2/	-45,459	-13,482	-4,480	-4,439	-4,475
Service balance	3,416	526			
Remittances and pensions	-1,529	-387			
Govt. grants & capital, net	-3,937	-802			
U.S. private capital (- = outflow)	-9,781	-2,879			
Direct investment abroad	-4,765	-994			
Foreign securities	-909	-388	-46	57	-60
Bank-reported claims -- liquid	-566	-518	-174	320	-110
" " " other	-2,372	-764	-367	-185	124
Nonbank-reported claims -- liquid	-506	-175	-137	67	
" " " other	-664	-40			
Foreign capital (excl. reserve trans.)	-5,036	1,280			
Direct investment in U.S.	-67	-335			
U.S. corporate stocks	849	679	273	78	55
New U.S. direct investment issues	1,161	309			
Other U.S. securities (excl. U.S. Govt.)	272	78			
Liquid liabilities to:	-6,691	528	-5	908	416
Commercial banks abroad	-6,908	438	58	974	402
Of which liab. to branches	(-4,942)	(-238)	(331)	(437)	(-44)
Other private foreigners	-465	61	-1	40	42
Intl. & regional institutions	682	29	-62	-106	-28
Other nonliquid liabilities	-560	21			
Reserve liab. to foreign official institutions	27,417	2,848	1,011	282	-510
U.S. monetary reserves (increase, -)	3,065	607	60	-15	-44
Gold stock	866	544	--	--	--
Special drawing rights 3/	468	--	--	7	--
IMF gold tranche	1,350	-1	-4	195	-4
Convertible currencies	381	64	64	-217	-40
Errors and omissions	-10,928	480			
BALANCES (deficit -) 3/					
Official settlements, S.A.		-3,455			
" " , N.S.A.	-30,482	-3,258	-1,071	-267	554
Net liquidity, S.A.		-3,290			
" " , N.S.A.	-22,719	-3,075	-755	-1,562	---
Liquidity, S.A. 4/		-3,983			
" , N.S.A.	-23,791	-3,824	-1,066	-1,175	138

* Monthly, only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.
4/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook

The situation of calm in foreign exchange markets and the surplus in the U.S. official settlements balance that had prevailed since mid-March changed abruptly in mid-June. A large-scale movement out of sterling reduced U.K. net reserves by about $2-1/2 billion in a few days and forced a decision to float the pound in order to avoid further large drains. Uncertainty in the exchange markets than focussed on the dollar, as the viability of the Smithsonian Agreement was questioned by some. Between June 15 and July 12 major foreign central banks other than the Bank of England and the Bank of Italy bought $3.6 billion against their own currencies. The principal gainer of reserves was the German Federal Bank, which added $1.7 billion to its holdings of dollars and is still to receive about $1-1/4 billion in dollars and about $1/2 billion in gold and SDRs from the Bank of England in repayment for the sales of DM in support of the pound.

The depreciation of sterling since June 14 amounts to about 6 percent. The speculative attack was triggered by several specific events, but it also reflected a market judgment (apparently shared by the U.K. authorities) that the exchange rates for sterling against other currencies established in the Smithsonian meetings were inappropriate, or would soon become so, in view of economic trends in Britain and the problems connected with entry into the

Common Market. Market participants did not appear to have comparably strong doubts about the viability of other exchange rate relationships. Barriers against inflows of capital were quickly strengthened in some countries -- particularly in Switzerland -- and by the end of the first week in July the market appeared to be less convinced that further changes in exchange rates in the near future should be expected.

Although reserve gains by foreign central banks have tapered off, the persisting forward market premiums for major foreign currencies against the dollar, as well as the high level of gold prices, indicate the existence of continuing doubts about stability of exchange rates. There is little in prospect for the U.S. balance of payments to bring renewed confidence in the dollar in the months ahead, such as existed in the mid-March to mid-June period after U.S. money market rates moved up relative to European rates. Although improvement in the trade balance from the $8 billion annual rate of deficit in April-May is projected, the basic balance -- i.e., the balance on current account and long-term capital -- is likely to be in a deficit in the third quarter at an annual rate of perhaps $10 billion, compared to a first quarter rate of nearly $13 billion. Exchange rates for other currencies are likely to press against their ceilings, and foreign central banks will probably have to add further to their dollar reserves. However, if expectations of further revaluations of the stronger currencies are not renewed in the months ahead and if a reflow of funds to the United States resumes, the size of the U.S. official settlements deficit could again be moderated.

Foreign exchange markets. Exchange market conditions have been chaotic for most of the past four weeks, with sterling floated, European and Japanese markets closed for several days and then re-opened under a welter of new exchange control measures, and the dollar coming under heavy selling pressure.

The sterling crisis began on June 15, apparently triggered by a wildcat dock strike. Sterling had begun to come under pressure in the forward market a week or so earlier in response to official warnings and semi-official forecasts of the effect of accelerating British wage and price inflation on that country's balance of payments. The situation was aggravated by a statement by U.K. shadow Chancellor of the Exchequer Healey on June 19 predicting a sterling devaluation by July or August. In the six trading days from June 15 to June 22, the U.K. used $2.6 billion equivalent of reserves in market support operations. Nearly all of this intervention was in EC currencies under the Community's narrow band arrangement. The effect of the intervention in EC currencies was to move the "snake" lower in the "tunnel". Dollar exchange rates for the German mark, the French franc, and the Belgian franc on June 22 were as much as 1 percent below their rates on June 14.

After the U.K. announced the float on the morning of June 23, rates for the stronger EC currencies jumped to their dollar ceilings, and European central banks purchased 1.15 billion of dollars before withdrawing from their markets. During the next few days, with major European and the Japanese markets closed, several of the European currencies and the yen traded well above their upper limits in the New York market, while the Italian lira traded below its floor.

Following intensive deliberations by the EC finance ministers and central bank governors, EC exchange markets officially re-opened on June 28, with the Smithsonian margins still maintained but with some modifications in the EC narrow band arrangement. Denmark dropped out of the snake temporarily, while Italy was allowed to use dollars rather than Community currencies to keep the lira in the snake. Germany and Italy announced new exchange control measures to reduce the inflows and outflows, respectively, from those two currencies. (See pp. III-16 below.) From June 28 to July 15, EC central banks purchased, net, around $900 million, including Bank of Italy sales of just under $400 million.

The Japanese market re-opened on June 29, and the Swiss market on July 3. Switzerland had introduced new exchange restrictions while that market was closed, and imposed even more severe controls following the National Bank's purchase of a large amount of dollars on July 3. (See pp. III-19.)

FOREIGN CENTRAL BANK INTERVENTION
June 15-July 12, 1972
(millions of dollars or equivalent, partly estimated)

	In Dollars	In Sterling	Total
U.K.	-130	-2,514*	-2,644
Germany	+1,655	+1,800	+3,455
France	+391	+464	+855
Netherlands	+205	+86	+291
Belgium	+76	+164	+240
Italy	-400	--	-400
Switzerland	+538	--	+538
Japan	+760	--	+760
Canada	+13	--	+13
Total	+3,108	--	+3,108

* U.K. liability to other EC countries for sterling support operations in EC currencies.

Toward the end of the period under review, the pressure on the dollar had abated somewhat, though rates for most major foreign currencies remained near or at their dollar ceilings. Three-month forward rates for the EC currencies -- except the lira -- the Swiss franc, and the yen were still above the upper limits on the spot rates by as much as one percent, indicating a residue of uneasiness in the markets.

Sterling, after moving as low as 241.00, has recovered to around 245.00, 6 percent below its old parity. One-year forward sterling has settled around 240.00. The FRBNY purchased £7-1/2 million in the New York market for U.S. Treasury account since June 26.

Euro-dollar market. Euro-dollar interest rates in most maturities reached their highest levels of this year immediately following the announcement of sterling's floating on June 23; on that date one- and three-month Euro-dollar deposits reached 6 percent; the rates for these maturities had been about 4.7 and 4.9 percent respectively, only a few days before. Rates in most maturities declined in the last few days of June but advanced on balance in the first week of July when large amounts of funds moved into various Continental currencies. (See Foreign Exchange Markets). In recent days one- and three-month Euro-dollar deposits have been at about 5.1 and 5.3 percent, respectively.

The overnight Euro-dollar rate declined in the two weeks through July 5, despite firmer rates in the longer maturities and the fact that Federal funds rates were rising. The relative ease in the overnight market in that period may reflect the fact that U.S. banks were reducing their borrowings so as to avoid incurring required reserves in the Euro-dollar reserve requirement computation period which ended July 5. Gross liabilities of U.S. banks to their foreign branches increased by about $500 million from June 7 to 21 but declined by about $950 million (to $0.8 billion) from June 21 to July 5. Available data indicate that on a daily average basis the banks' Euro-dollar positions changed little from the previous computation period.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$1/	(2) Federal Funds2/	(3) Differential (1)-(2)	(*)	(4) 1-month Euro-$ Deposit1/	(5) 30-59 day CD rate (Adj.)3/	(6) Differential (4)-(5)	(*)
1972 - Mar.	3.87	3.83	0.04	(1.01)	5.05	3.80	1.25	(2.51)
Apr.	3.92	4.17	-0.25	(0.73)	4.72	4.44	0.28	(1.46)
May	3.79	4.27	-0.48	(0.47)	4.25	4.21	0.04	(1.10)
June	4.09	4.46	-0.37	(0.65)	4.82	4.50	0.32	(1.53)
June 14	4.15	4.46	-0.31	(0.73)	4.60	4.41	0.19	(1 34)
21	4.12	4.39	-0.27	(0.76)	4.69	4.61	0.08	(1.25)
28	3.75	4.49	-0.74	(0.20)	5.55	4.66	0.89	(2.28)
July 5	3.57	4.61	-1.04	(-0.15)	4.84	4.74	0.10	(1.31)
12p	4.30	4.65	-0.35	(0.73)	5.09	4.74	0.35	(1.62)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.

2/ Effective rate.

3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.

*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 percent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).

p/ Preliminary.

Balance of payments. Until mid-June it appeared that the United States might register a small surplus on official settlements in the second quarter, despite a worsened trade balance. However, the attack on sterling and the heavy speculative outflows from the United States that took place in the rest of June -- and persisted until the end of the first week in July -- resulted in a June deficit of more than $1 billion. Consequently, the second quarter deficit on official settlements, seasonally adjusted, was probably somewhat over $1 billion.

Flows of long-term private capital were possibly more favorable than in the first quarter. In that quarter, reported net outflows by U.S. corporate investors were at an annual rate of $3-1/2 billion, not much below the average in 1971; in the second quarter, as sales of bonds by U.S. corporations in foreign markets were at a record annual rate of over $3 billion, such net outflows were probably smaller. Also, the first-quarter outflows of funds through U.S. affiliates of Japanese trading companies, amounting to nearly $1/2 billion, probably ended in the second quarter. On the other hand, foreign net purchases of U.S. corporate stocks amounted to only about $200 million in the second quarter, down from $680 million in the first.

Bank-reported claims on foreigners (short and long-term) were reduced by $370 million in April-May, and weekly data suggest some further decline in the first half of June. However, during the exchange crisis in the second half of the month, such banking claims increased by $300-400 million, according to these data.

The basic deficit resulting from current account and long-term capital transactions in the second quarter was probably not significantly changed from the first quarter annual rate of $13 billion, so far as can be judged from partial data now available. Since the second quarter over-all deficit on the official settlements basis is estimated at a $4 to $5 billion annual rate, very large inflows of short-term capital in various forms must have been under way until the middle of June.

Present expectations are that the trade balance and net receipts from services will be improving gradually over the rest of the year, but the unexpectedly high trade deficits of April and May force an upward revision of the estimated deficit on goods and services for the year as a whole to about $3 billion. The comparable balance last year was a surplus of $0.7 billion.

U.S. foreign trade. The U.S. trade deficit in May fell from the exceptionally large figure of the preceding month as exports rose while imports showed little change from the high values of March and April. For the two months of April-May the trade deficit was $8 billion at an annual rate (balance of payments basis). This compares with a deficit rate of $6-3/4 billion in the first quarter.

While total imports have varied only slightly since February, a shift in their composition has occurred. Imports of some industrial materials are stronger, imports of foods turned up, while imports of nonfood consumer goods (other than automobiles) have declined in the last two months. However, imports of automobiles, both from Canada and other sources, have continued to rise along with the increase in total U.S. car sales. Although sales of foreign cars (other than from Canada) in terms of units are a smaller proportion of total U.S. car sales this year, the value of imports has continued to rise, reflecting a build-up in inventories of foreign cars, higher prices, and a shift to purchases of the more expensive models.

The rise in imports of industrial materials until May was mainly in lumber and petroleum, as housing starts remained high, and domestic requirements for petroleum expanded. In May imports of industrial materials were further strengthened by a resumption of heavy arrivals of steel; steel imports had dipped in March-April. It can be expected that imports of other types of industrial materials will also rise with the projected accelerated growth of the domestic economy in the second half of this year. Higher imports of these materials may more than offset any further reduction in imports of consumer goods which were exceptionally large in the early months of this year. Therefore, the overall level of imports may be rising in the coming months.

Exports since January have shown a greater month-to-month variation than imports, but on average, there has been little evidence of growth. The April-May average level of $45-1/2 billion at an annual rate was slightly below the February-March level (January exports were unusually high because of a makeup in shipments delayed by dock strikes). The value of shipments of agricultural commodities has remained high because of higher prices for cotton and soybeans related to supply limitations and increased sale of corn to the U.S.S.R. under the $175 million purchase agreement of last year. The new grain agreement with the U.S.S.R. provides for sales of $750 million of grain over a three-year period and should help sustain the level of exports of agricultural commodities during the remainder of the year at close to the high April-May value.

Exports of nonagricultural commodities -- other than commercial aircraft and automotive equipment to Canada -- have changed little since January and have not yet responded to the upturn in economic activity in foreign industrial countries. Exports of machinery have been virtually flat since January, although foreign orders for U.S. machinery had increased gradually from mid-1971 through April of this year. In May foreign orders for machinery fell off sharply, but the volatility of the series makes it uncertain whether this drop was significant. Shipments of non-agricultural industrial materials -- chemicals, coal, metals, -- in April-May were below the average level of shipments in February-March.

Shipments of automotive equipment to Canada, principally parts for assembly in cars to be returned to the United States, have been increasing successively every month this year. The rise reflects not only higher U.S. car sales but also a further shift to Canada of the production of fast-selling models. Exports of commercial aircraft have generally displayed their typical erratic monthly movement; the average value of such shipments in the first five months of this year was higher than the projected value of aircraft deliveries in the second half.

Balance of payments and related developments in major industrial countries. The recent turmoil in the foreign exchange markets does not appear to be justified by significant changes in the balance of payments of leading foreign countries, with the exception of the United Kingdom.

The heavy selling of sterling which initiated the foreign exchange crisis in mid-June was triggered by concern over labor problems in Britain. The decision to float the pound shortly thereafter, on June 23, reflected not only the need to stop the heavy drain on Britain's foreign exchange reserves but also awareness by the British authorities that balance of payments movements augured badly for the pound. The surplus on current account -- in this case a good indicator of underlying balance of payments conditions -- had diminished very sharply since mid-1971, with the re-emergence of a large trade deficit, in spite of persistent high unemployment. It seemed clear that further recovery of the domestic economy would cause a substantial current account deficit. In addition, entry into the Common Market on January 1, 1973 will put further pressure on the British external payments position.

The flight from sterling -- and after the float of sterling, the weakening of the dollar as well -- put strong upward pressure on the currencies of several countries, most notably the mark and the yen. With the Japanese current account expected to remain in substantial surplus, despite its sizable revaluation against other currencies last December, the rush into yen is not surprising. In Germany, however, the current account has declined to a position of approximate balance, before the economy has returned to full employment and before the revaluation has exerted its full effects on the balance of payments. Thus the anticipation of another revaluation implicit in the speculative inflows into marks does not seem well grounded.

Other currencies experiencing upward pressure include the French, Belgian and Swiss francs, and the Dutch guilder. In the case of France, the demand for francs has occurred despite the emergence of a current account deficit, which is expected to widen this year. And demand for the Dutch guilder remains strong despite relatively high rates of inflation in the Netherlands.

The Canadian dollar strengthened briefly as the U.S. dollar weakened immediately following the floating of the pound. However, with that one exception, the Canadian dollar has been drifting downward since mid-June, mainly under the influence of lower interest rates in Canada. The decline in sterling may also have contributed, Britain being Canada's second largest export customer.

Currencies, other than the pound and the U.S. and Canadian dollars, which have shown weakness in recent weeks include the lira and the Danish krone. In Italy, the current account remains comfortably in surplus, but capital outflows have been taking place mainly because of pessimism over the political and economic outlook. The Danish deficit on current account was significantly reduced in the first quarter and the authorities are optimistic enough about the balance of payments outlook to be trying to hold the present parity of the krone. In contrast to the British, the Danes expect immediate benefits to their balance of payments from entry into the Common Market next year.

Of the countries whose currencies have been in strong demand lately, Germany, Japan and Switzerland have adopted new measures to curb capital inflows, in order to protect the parities of their currencies and, in the case of Germany and Switzerland, to soak up liquidity which is jeopardizing the success of their anti-inflation compaigns. Germany for the first time imposed direct capital controls, precipitating the resignation of Minister of Economics and Finance Schiller. Germany's precedent-breaking action implies a move toward acceptance of the principle of a regime of direct controls in the Common Market, as long advocated by the French authorities.

The weak currency countries have taken steps to halt capital outflows. The British, in addition to floating sterling, raised Bank rate and extended controls on capital outflows to include the countries of the Sterling Area. The Danish central bank also raised its discount rate and announced it would restrict lending to commercial banks. Italy announced the suspension of convertibility of Italian bank notes remitted by foreign banks.

The decision to float the pound on June 23 following two weeks of heavy speculative selling of sterling reflected recognition that British reserves would be exhausted very soon. Beyond this compelling consideration, the British authorities probably believed that the pound was or soon would be overvalued and that capital controls and other restrictive measures could not preserve the $2.60 parity indefinitely. There had been a sharp decrease in the current account surplus, from a high of almost $900 million in the third quarter of 1971 to less than $100 million in the first quarter this year, due largely to a shift in the trade balance from surplus to deficit. Distortions were caused by the U.S. dock strike and the U.K. coal miners' strike, but a substantial trade deficit continued in April and May. The sharp rise in imports this year appears to be associated with the upturn in U.K. economic activity. The drop in exports in 1972 below the levels in the last nine months of 1971 may reflect declining competitiveness of British goods. British export prices, in sterling, have been rising rapidly -- by more than 8 per cent from first quarter 1971 to first quarter 1972.

The key to the balance of payments outlook -- and to the new parity of the pound (the British have promised that the float is only temporary) -- is the domestic cost situation. If, as now seems likely, the Confederation of British Industry and the Trades Union Congress reach an understanding whereby the CBI members agree to continue their voluntary price restraint policy, a new parity of $2.50 might be established, representing a devaluation of not quite 4 per cent. If, on the other hand, wages and prices are allowed to spiral upward unchecked, a more substantial devaluation -- to $2.40, for example -- might be necessary.

The capital account of the British balance of payments has also deteriorated this year, but this reflects mainly the end to the speculative short-term inflows in 1971.

The German current account was approximately in balance in the first four months of 1972, as continued large surpluses on trade account were offset by deficits on services and transfers. Last year there was a surplus of over $200 million in January-April.

The overall balance registered a surplus of $1.3 billion in January-April this year, down sharply from last year's DM $3.2 billion surplus for the same four months. This year's surplus is mainly explained by a large positive errors and omissions item, probably reflecting heavy unrecorded capital inflows, and an unusually large surplus on long-term capital account. The bulge in the capital account is associated with a surge in the purchase of fixed interest DM securities by nonresidents. Purchase of such securities by nonresidents may have been one way of circumventing the so-called Bardepot law, which went into effect March 1 and which requires that some percentage, up to 50 per cent, of the proceeds of loans to German non-bank enterprises by nonresidents be deposited, interest free, with the Bundesbank.

The fact that the current account has been reduced to approximate balance this year, before the full impact of the revaluation has been felt and while the economy is still operating at less than full employment, suggests that the mark is hardly undervalued at this point. Nevertheless, the recent weakness of the pound and the dollar has triggered a new speculative inflow into marks.

At the end of June the German authorities adopted several measures to slow this inflow, in order both to mitigate upward pressure on the mark and to absorb the liquidity which the inflow was causing. The most noteworthy measure taken was a prohibition on sale of bonds to nonresidents without permission of the Bundesbank. This represents a marked departure from previous German practice of avoiding direct capital controls. The use of such controls has long been favored by the Bundesbank, which sees them as rendering monetary policy more effective. On the other hand, direct controls were opposed by Minister of Economics and Finance Schiller, who subsequently resigned in large part because of their adoption.

The authority for the restriction on bond sales is provided for in Article 23 of the External Economy law of 1961. This article grants the government broad powers to restrict capital inflows of all kinds by administrative action. One of the arguments against using Article 23 -- aside from general objections to capital controls -- was that it should be invoked only in return for concessions from Germany's common market partners, notably France and Belgium, who have been urging Germany to impose capital controls.

It should be noted that the controls the Germans have instituted are not comprehensive. For example, no restrictions were placed on nonresidents' purchase of equities or of bonds issued by nonresidents.

The other measures taken at the end of June included raising the deposit requirement under the Bardepot law from 40 to the legal maximum of 50 per cent. In addition, the Bundesbank raised reserve requirements on both domestic and foreign liabilities of the commercial banks and lowered the banks' rediscount quotas.

The French balance of payments, as measured by changes in official reserves and the external position of commercial banks, was in deficit in the first quarter by $424 million Information on the banks' position beyond the first quarter is not available, but the reserves, after showing virtually no change in April and May, apparently increased by over $600 million in June and early July, as the Bank of France intervened in the market to buy dollars. Before the sterling float the Bank of France was also purchasing pounds.

The current account during the first five months of 1972 was probably slightly in deficit, with the trade account known to have been approximately in balance and invisibles thought to have run their customary deficit. The prospect of continued trend growth in the economy during the rest of the year -- about 5 per cent, annual rate -- makes it likely that the deficit will widen.

Despite the deficit on current account, the French franc, judging by the Bank of France's recent support operations, has proved attractive to speculators. It is clear, furthermore, that France's network of exchange controls and the dual franc rate have not proved fully effective against unwanted capital inflows, which have lifted France's external reserves from less than $6 billion in mid-1971 to about $9 billion.

The current account of the <u>Swiss</u> balance of payments apparently registered a small surplus in 1971 -- final figures have not yet been published -- as it did in 1970. The $100 million surplus in 1971 (as estimated by the OECD) was the result of a substantial surplus on invisibles more than offsetting a deficit on trade account. With the economy fully employed and with inflation no worse than in most other European countries, the balance of payments outlook appears favorable.

The Swiss have adopted several measures in recent days to choke off the flow of speculative funds into Swiss francs. On June 27, a ban was imposed on sales of securities and of real property to nonresidents. On July 5, a 2 per cent per quarter tax was imposed on increases over June 30 levels in nonresident Swiss franc deposits in Swiss commercial banks. In addition, Swiss banks were prohibited from maintaining a net liability position in foreign exchange and non-bank enterprises were required to obtain permission from the Swiss National Bank to borrow from nonresidents.

From June 23 until July 3, the Swiss National Bank refrained from intervention in the exchange market, thereby allowing the Swiss franc to float -- at times above its upper limit.

The strenuous efforts to curb the inflow into Swiss francs are part of the Swiss authorities' drive to moderate domestic inflation. Large-scale capital inflows greatly expand bank liquidity and thereby work against this drive. Inflation intensified in 1971 and early 1972, when consumer prices increased at an annual rate over 6 per cent -- compared to a 10-year average rate of 3.5 per cent.

The current account of the Dutch balance of payments in the first quarter of 1972 was in substantial surplus -- for the third quarter running. These surpluses reflect partly the Dutch mini-recession, but also the terms of trade effect following the revaluation of the guilder. The recent substantial rise in exports probably shows also an underlying strength in the Dutch competitive position, despite the relatively high rates of inflation of the past several years.

The overall balance of payments has been in substantial surplus, well in excess of the current account surplus, because of large short-term capital inflows. Restrictions on purchases of Dutch long-term securities by foreigners appear to have been successful in moderating inflows on this account, but banks have been increasing their foreign liabilities instead.

The balance of payments of the Belgium-Luxembourg Economic Union was in deficit by over $70 million in the first four months of 1972, compared with a surplus of $150 million during the same period in 1971.

The current account, however, remains in surplus, though it declined somewhat during 1971 as export demand slackened. The decrease was not unwelcome, as economic policy has been aimed at reducing the current account surplus by transferring resources from foreign to domestic use.

The deficit on the overall balance of payments stemmed mainly from substantial capital exports by firms and individuals, reflecting primarily direct Belgian investment abroad.

Because of the strength of the current account -- and also because of Belgium's ample official net foreign assets, which totalled

$3.6 billion at the end of April -- the Belgian franc has been a very strong currency, one considered a likely candidate for revaluation. This has put considerable upward pressure on the Belgian franc and has prompted action by the authorities to ward off speculative capital inflows. Their actions have included successive reductions in the Belgian National Bank's discount rate, from 7 1/2 per cent in October 1970 to 4 per cent in March 1972, and institution of a dual foreign exchange market last year.

The Italian balance of payments has weakened somewhat in 1972 after recording large surpluses in the preceding two years. In the first four months of 1972 the overall balance was in deficit by about $190 million, though a surplus of $130 million would have been recorded but for debt prepayments in January and February. The deterioration in the balance of payments has been entirely the result of capital outflows, the current account having shown a surplus of about $550 million in January-April.

Because the utilization of resources is likely to continue to be at a lower level in Italy than in her main trading partners, Italy's current account will probably remain strong. But capital has been moving out of Italy because of political uncertainties and the general malaise of the economy, reflecting steeply rising unit labor costs, shrinking profits, business pessimism, a slump in private investment and the possibility that upcoming wage negotiations may again result in highly inflationary settlements.

Increases in exports of Italian banknotes have been the major source of the increased capital outflow. The government acted in late June to discourage such exports, by suspending the convertibility of lira balances credited to foreign banks for remittances of Italian banknotes.

The current account of the Danish balance of payments improved markedly in the first quarter, the deficit being reduced to $57 million from about $100 million in the fourth quarter and about $200 million in the first quarter of 1971. The improvement stemmed mainly from a sharp decrease in the trade deficit. The 10 per cent surcharge on imports imposed last year has contributed to the improvement, but it is feared that, with the surcharge to be gradually reduced and ultimately removed in April 1973, imports may climb rapidly.

The Danish authorities, however, feel that the outlook for the balance of payments is sufficiently bright so that a devaluation of the krone -- which has been under pressure during the foreign exchange crisis of recent weeks -- is not called for. To help defend the krone and take the heat out of domestic demand, the Danish Nationalbank raised its official discount and rediscount rates from 7 to 8 per cent on June 27 and announced that it would restrict its lending to commercial banks. Fiscal policy may also be tightened through cuts in government expenditures.

The government also announced on June 27 that it had withdrawn from its agreement with the EEC of May 1 to limit fluctuations of the krone with respect to other EEC currencies to 2 1/4 per cent. But it will adhere to the Smithsonian agreement by limiting fluctuations to 2 1/4 per cent on either side of parity.

The Bank of Japan announced a discount rate reduction from 4 3/4 to 4 1/4 per cent on the same day the pound was floated. Subsequently, certain exchange controls were tightened to hold down capital inflows. The recently established marginal reserve requirement on increases in "free yen" deposits by foreigners was raised from 25 to 50 per cent. The control on bank purchases of export bills was extended to smaller transactions than before. Foreign exchange conversions to yen in advance of securities purchases were prohibited.

Official reserves declined during April-June by $800 million, to $15.8 billion. The decline reflected repayment of foreign liabilities and increases in foreign assets of banks.

Although the basic balance of payments has continued in surplus, monthly surpluses have declined since February, reflecting some diminution of the surplus on trade account. In May heavy payments for leasing of foreign ships were necessitated by the prolonged seamen's strike in Japan.

Exports stabilized in February-April and declined slightly in May. Imports, on the other hand, have been rising slightly, with the result that the monthly trade surplus declined from about $400 million in February-March to about $310 million in April-May (as seasonally adjusted by Japan).

Continuing net long-term capital outflows reflect increased Japanese purchases of foreign securities, sharply smaller foreign purchases of Japanese securities than last year, and a net outflow of "other" unspecified long-term capital.

APPENDIX A: INTEREST RATES ON AUTOMOBILE LOANS AT FINANCE COMPANIES

At the request of the Committee on Interest and Dividends, the Federal Reserve Board has started to collect information on interest rates and other terms on automobile loans made by finance companies. This information will be published monthly in the new Statistical Release G.11, which complements the interest rate data on auto loans of banks already available in Statistical Release (G.10). Back data has been obtained from the finance company respondents so that the first release, issued July 10, contains data for a full year. The figures in the report (reproduced on next page) are weighted averages of new and used auto instalment contracts purchased from automobile dealers by major automobile finance companies.

FINANCE RATES AND OTHER TERMS ON NEW AND USED CAR INSTALMENT CREDIT CONTRACTS PURCHASED FROM DEALERS BY MAJOR AUTO FINANCE COMPANIES

Period	Customer rate (Per cent per annum)			Average maturity (months)			Average amount financed (dollars)			Ratio of amount financed to whole-sale value (per cent)		
	New	Used	Average	New	Used	Average	New	Used	Average	New	Used	Average
1971												
June	12.13	16.62	13.25	35.0	28.6	33.4	3,045	1,624	2,476	87	99	9[illegible]
July	12.10	16.69	13.24	35.0	28.5	33.4	3,059	1,611	2,495	87	98	90
August	12.11	16.78	13.27	35.0	28.3	33.3	3,039	1,578	2,474	87	99	90
September	12.10	16.77	13.26	34.9	28.1	33.2	3,041	1,559	2,505	86	99	89
October	12.06	16.08	13.06	34.8	29.4	33.5	3,052	1,622	2,557	85	97	88
November	12.06	16.16	13.08	34.8	29.2	33.4	3,054	1,632	2,534	85	97	88
December	12.11	16.26	13.14	34.8	28.9	33.3	3,089	1,632	2,515	86	96	88
1972												
January	12.07	16.17	13.09	34.9	29.2	33.5	3,014	1,645	2,447	86	97	89
February	11.99	16.27	13.06	34.9	29.2	33.5	3,018	1,645	2,456	87	98	90
March	11.92	16.32	13.02	35.0	29.1	33.5	3,029	1,645	2,482	87	99	90
April	11.87	16.40	13.00	35.0	29.1	33.5	3,058	1,648	2,521	87	99	90
May	11.86	16.47	13.01	35.0	29.0	33.5	3,075	1,668	2,561	87	100	90

Note: Rates are reported on an annual percentage rate basis as specified in the Federal Reserve Board Regulation Z (Truth-in-Lending). Data on the amount financed exclude finance charges.