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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

August 9, 1972

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

August 9, 1972

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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 (%)	July	8/4	5.5	5.5 1/	5.9 1/	5.9 1/
Nonfarm employment, payroll (mil.)	July	8/4	72.6	-1.4	1.7	2.9
Manufacturing	July	8/4	18.9	-6.1	0.6	2.0
Nonmanufacturing	July	8/4	53.7	0.3	2.1	3.2
Private nonfarm:						
Average weekly hours (hours)	July	8/4	37.3	37.3 1/	37.3 1/	36.9 1/
Hourly earnings ($)	July	8/4	3.62	3.3	1.1	5.5
Output per manhour (1967=100)	QII	7/27	111.6	5.0	--	4.4
Compensation per manhour (1967=100)	QII	7/27	138.9	4.7	--	6.2
Unit labor cost (1967=100)	QII	7/27	124.4	-0.2	--	1.7
Manufacturing:						
Average weekly hours (hours)	July	8/4	40.7	40.7 1/	40.8 1/	40.0 1/
Unit labor cost (1967=100)	June	7/72	120.9	5.0	5.4	3.8
Industrial production (1967=100)	June	7/17	112.7	3.2	6.5	4.9
Consumer goods	June	7/17	121.4	-3.9	6.7	4.6
Business equipment	June	7/17	101.5	5.9	3.6	6.2
Defense & space equipment	June	7/17	76.5	1.6	4.2	-0.3
Materials	June	7/17	115.6	8.4	9.6	5.8
Wholesale prices (1967=100)	July	8/4	119.3	8.3	6.5	4.5
Industrial commodities	July	8/4	118.2	2.7	4.0	3.1
Farm products & foods and feeds	July	8/4	122.2	22.0	12.5	7.9
Consumer prices (1967=100)	June	7/21	124.8	0.7	2.2	2.9
Food	June	7/21	122.6	2.0	0.0	3.2
Commodities except food	June	7/21	119.2	0.0	2.7	2.0
Services 2/	June	7/21	133.1	3.6	3.3	3.8
Personal income ($ bil.) 3/	June	7/20	924.0	0.0	4.6	5.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	June	8/2	35.1	3.8	6.7	22.5
Capital goods industries:						
Nondefense	June	8/2	9.2	1.5	7.6	22.0
Defense	June	8/2	2.8	82.3	53.9	68.4
Manufacturer's inventories:						
Ratio: total to shipments	June	8/2	1.71	1.69 1/	1.71 1/	1.82 1/
Ratio: durable goods to unfilled orders	June	8/2	.876	.900 1/	.905 1/	.940 1/
Retail sales, total ($ bil.) r/	June	8/7	36.7	-1.2	0.6	8.4
GAF r/	June	8/7	9.7	-1.4	0.6	8.3
Auto sales, total (mil. units) 3/	July	8/4	11.50	7.6	10.6	17.1
Domestic models	July	8/4	9.99	11.0	10.8	19.8
Foreign models	July	8/4	1.51	-10.7	9.4	2.0
Housing starts, private (thous.) 3/	June	7/19	2,298	-1.4	-3.0	14.4
Leading indicators (1967=100)	June	7/72	142.5	0.5	3.0	13.5

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Recent production and employment data suggest that the pace of expansion has moderated from the exceptionally rapid advance indicated for the second quarter--an annual rate of 8.9 per cent for real GNP. Industrial production is tentatively estimated to have increased only moderately again in July, following larger gains earlier in the year. Floods in the East contributed to the slower growth in June and July, but to an unknown extent.

Various signs point to continued underlying strength, however. Retail sales are estimated on the basis of weekly data to have risen appreciably in July to a new high, more than recouping the June decline. Unit sales of domestic-type autos rose sharply to the highest rate this year. In June manufacturers' new orders for durable goods continued expansive, with the nondefense capital goods industries continuing to show an upward trend, and book value of manufacturers' inventories rose at a substantial rate.

Unemployment in July remained at the reduced 5.5 per cent rate of June, suggesting that the long-awaited improvements in this measure may be under way. Nonfarm payroll employment, however, showed little change after adjustment for strikes from the upward revised June level. Employment declined in manufacturing, but this may have been largely attributable to the temporary closing of plants due to the floods. The factory workweek was unchanged at a relatively high level.

The increase in average hourly earnings in the private nonfarm sector was moderate in July; the annual rate of increase since January has been about 4-1/2 per cent. Productivity rose sharply in

the nonfarm sector in the second quarter, and unit labor costs showed no increase for the first time in many years.

The better cost performance in the second quarter was accompanied by some moderation in prices. The private fixed-weight deflator rose at a rate of 3.1 per cent, compared with 4.5 per cent in the first quarter. The increase in the GNP deflator was at an annual rate of only 2.1 per cent. This relatively low rate reflects both a reduced pace of price advance for most major goods and services sectors and also shifts in the composition of demands.

Wholesale prices of industrial commodities rose at an annual rate of only 2.8 per cent in July, the slowest this year. But prices of farm products and foods advanced at a rapid pace, with livestock prices up further following earlier gains, and the over-all wholesale price index also rose sharply. In June, the consumer price index increased at an annual rate of 0.7 per cent, and was 2.9 per cent above a year earlier.

Outlook. The staff continues to project a vigorous expansion in real GNP for the second half of this year, although not as strong as the exceptional rise in the second quarter. The current projection again assumes growth in the monetary aggregates consistent with expansion in M_1 at around a 6 per cent rate.

The projection is little changed from that of four weeks ago, with all demand sectors--except residential construction--expected to contribute to the over-all expansion. We still look for an accelerated rise in real GNP in the fourth quarter, reflecting the stimulus to consumer spending of the 20 per cent increase in social security benefits which will begin to be paid in early October. We are also assuming

a more liberal minimum wage measure--a compromise between the House bill and the much larger Senate measure. And the projection now allows for general revenue sharing retroactive to January 1, 1972--with payments beginning in the fourth quarter. We are assuming that the retroactive feature will act to improve the financial position of State and local governments rather than to raise State and local purchases appreciably.

The recent improved performance of wage rates, unit costs, and prices has led the staff to lower somewhat its projection of the rate of price increase, though the prospect of higher food prices at retail in the near term will probably keep the rise in the private GNP fixed-weight price index above the 3.1 per cent annual rate of the second quarter. The unemployment rate is still projected to average 5.3 per cent in the fourth quarter.

STAFF GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Private GNP fixed weight price index		Unemployment rate	
Date	7/12/72	Current	7/12/72	Current	7/12/72	Current	7/12/72	Current
1971 1/	72.7	74.0	2.7	2.7	4.8	4.5	5.9	5.9
1972	100.5	102.3	5.9	6.3	3.5	3.4	5.6	5.6
1973	117.3	114.3	6.4	6.3	3.6	3.5	5.1	5.1
1972-I 1/	30.7	31.0	5.6	6.5	4.4	4.5	5.8	5.8
1972-II 1/	29.1	29.9	7.8	8.9	3.5	3.1	5.8	5.8
1972-III	27.8	27.2	6.5	6.2	3.4	3.3	5.6	5.5
1972-IV	32.0	30.3	7.7	7.5	3.4	3.0	5.3	5.3
1973-I	30.9	31.0	6.3	6.5	3.5	3.4	5.2	5.2
1973-II	27.6	26.5	5.6	5.4	3.7	3.6	5.1	5.1
1973-III	27.3	26.0	4.7	4.4	4.2	4.0	5.0	5.0
1973-IV	27.4	26.5	4.5	4.2	4.2	4.2	5.0	5.0

1/ Actual

The staff projection for 1973 also is little changed from that of four weeks ago. Real growth is expected to taper off as the year goes on, while the rate of price increases accelerates--on our continued assumption that the control program terminates at the end of next April. GNP growth is a little less than projected earlier, and takes account of the less favorable prospects for improvement in net exports reported in the balance of payments section of this Greenbook. The unemployment rate is again shown at 5.0 per cent for the final quarter of the year.

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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 IIp	1972 Projected III	1972 Projected IV
Gross National Product	1050.4	1152.7	1267.0	1078.1	1109.1	1139 0	1166.2	1196.5
Final purchases	1046.7	1147.0	1252.5	1076 4	1108.6	1134.7	1159.2	1185.5
Private	813.9	839.1	972.8	835 5	859.2	880 1	898 8	918.3
Excluding net exports	813.2	892.9	974.2	837 6	863.8	885.0	902.2	920.6
Personal consumption expenditures	664.9	720.1	791.1	680 5	696.1	712.5	727.5	744.4
Durable goods	103.5	115.3	130.0	106 1	111.0	113.6	116.6	120 0
Nondurable goods	278.1	299.0	328.6	283 4	288 3	296.3	302.3	309.0
Services	283.3	305.8	332.5	290 9	296.7	302.6	308.6	315 4
Gross private domestic investment	152.0	178 5	197.6	158 8	168.1	176.8	181.7	187.2
Residential construction	42.6	52.1	48.4	47.3	51.6	52.4	52.6	51.6
Business fixed investment	105.8	120.7	134.7	109.8	116.1	120.1	122.1	124.6
Change in business inventories	3.6	5.7	14.5	1.7	0.4	4.3	7.0	11.0
Nonfarm	2.4	5.4	14.5	0.8	0.1	3.6	6.8	11.0
Net exports of goods and services[1/]	0.7	-3.8	-1.4	-2 1	-4.6	-4.9	-3.4	-2 3
Exports	66.1	71.7	81.8	63.0	70.7	70.0	71.9	74.1
Imports	65.4	75 5	83.2	65.1	75.3	74.9	75.3	76.4
Gov't. purchases of goods and services	232 8	257.9	279.8	240.9	249.4	254.6	260.4	267.2
Federal	97.8	108.9	111.4	100.7	105.7	108.2	110.0	111.8
Defense	71.4	79 1	80.2	71.9	76.7	78.6	79.7	81.5
Other	26.3	29.8	31.2	28.7	28.9	29.6	30.3	30.3
State & local	135.0	149.0	168.4	140.2	143.7	146 4	150.4	155.4
Gross national product in constant (1958) dollars	741.7	788.5	852.2	754.5	766.5	783 1	795.3	810.2
GNP implicit deflator (1958 = 100)	141.6	146.1	115.1	142.9	144.7	145.4	146.6	147.7
Personal income	861.4	934.1	1019.5	881.5	907.0	922.5	939.5	967.4
Wage and salary disbursements	572.9	627.0	687.1	585.9	608.0	620.2	632.9	646.9
Disposable income	744.4	795.5	876 9	758.5	770.5	782.9	802.0	826.6
Personal saving	60.9	56.4	66.2	59.3	55.7	51.5	55.4	62.9
Saving rate (per cent)	8.2	7.1	7.5	7.8	7.2	6 6	6.9	7.6
Corporate profits before tax	83.3	97.1	113.3	83.2	88.2	94.7	99.5	106.0
Corp. cash flow, net of div. (domestic)	78.2	94.4	108.2	82.7	85.9	93.0	97.1	101.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	199.1	226.4	243.1	202.8	221.5	225.6	226.1	232.4
Expenditures	220.8	252.0	272.1	227.5	236.3	246.6	261.3	263.7
Surplus or deficit (-)	-21.7	-25.6	-29.0	-24.7	-14.8	-21.0	-35.2	-31.3
High employment surplus or deficit (-)	3.7	-4.6	-10.6	6.8	8 6	-1.7	-13.5	-11.8
Total labor force (millions)	86.9	89.0	90.6	87.7	88.4	88.8	89.1	89.5
Armed forces "	2.8	2.4	2.4	2.7	2.5	2.4	2.4	2 4
Civilian labor force "	84.1	86.5	88.2	85.0	85.9	86.4	86.7	87 1
Unemployment rate (per cent)	5.9	5.6	5.1	5.9	5.8	5.7	5.5	5 3
Nonfarm payroll employment (millions)	70.7	72.7	74.9	71.0	71.8	72.5	72.9	73.6
Manufacturing	18.6	19.0	19.7	18.6	18.7	18.9	19 1	19.3
Industrial production (1967 = 100)	106.8	113.5	122.7	107.4	109.9	112 4	114 5	117 2
Capacity utilization, manufacturing (per cent)	75 0	77 0	80.3	74 6	75 3	76 7	77.4	78 5
Housing starts, private (millions, A R.)	2.05	2.27	1.93	2 24	2.51	2.25	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.65	11.06	10.48	10.09	10.74	10.75	11.00
Domestic models	8.68	9.17	9.59	9 20	8.69	9.21	9.25	9.50
Foreign models	1.45	1.48	1.47	1.28	1.40	1.53	1.50	1.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 IIp	1972 Projected III	1972 Projected IV
	Billions of Dollars							
Gross National Product	74.0	102.3	114.3	21.2	31.0	29.9	27.2	30.3
Inventory change	-1.3	2.1	8.8	0.4	-1.3	3.9	2.7	4.0
Final purchases	75.2	100.3	105.5	20.8	32.2	26.1	24.5	26.3
Private	61.4	75.2	83.7	13.5	23.7	20.9	18.7	19.5
Excluding net exports	64.3	79.7	81.3	16.0	26.2	21.2	17.2	18.4
Net exports	-2.9	-4.5	2.4	-2.5	-2.5	-0.3	1.5	1.1
Government	13.8	25.1	21.9	7.3	8.5	5.2	5.8	6.8
GNP in constant (1958) dollars	19.6	47.1	49.6	12.0	12.0	16.6	12.2	14.9
Final purchases	21.1	45.5	43.4	12.1	12.4	13.6	10.5	11.9
Private	22.5	38.1	39.7	8.6	11.3	11.7	8.8	9.7
	Per Cent Per Year							
Gross National Product	7.6	9.7	9.9	8.3 1/	12.0 1/	11.2 1/	9.6	10.4
Final purchases	7.7	9.6	9.2	7.9	12.0	9.4	8.6	9.1
Private	8.2	9.2	9.4	6.6	11.4	9.7	8.5	8.7
Personal consumption expenditures	7.8	8.3	9.9	5.8	9.2	9.4	8.4	9.3
Durable goods	14.4	11.4	12.7	0.0	18.5	9.4	10.6	11.7
Nondurable goods	5.2	7.5	9.9	7.0	6.9	11.1	8.1	8.9
Services	8.2	7.9	8.7	6.7	8.0	8.0	7.9	8.8
Gross private domestic investment	10.9	17.4	10.7	17.3	23.4	20.7	11.1	12.1
Residential construction	36.5	22.3	-7.1	25.2	36.4	6.2	1.5	-7.6
Business fixed investment	4.9	14.1	11.6	13.2	23.0	13.8	6.7	8.2
Gov't. purchases of goods & services	6.3	10.8	8.5	12.5	14.1	8.3	9.1	10.4
Federal	1.3	11.3	2.3	11.4	19.9	9.5	6.7	6.5
Defense	-4.9	10.8	1.4	10.3	26.7	9.9	5.6	9.0
Other	22.3	13.3	4.7	12.9	2.8	9.7	9.5	0.0
State & local	10.2	10.4	13.0	13.3	10.0	7.5	10.9	13.3
GNP in constant (1958) dollars	2.7	6.3	6.3	6.7 1/	6.5 1/	8.9 1/	6.2	7.5
Final purchases	2.9	6.2	5.5	6.5	6.6	7.1	5.4	6.0
Private	3.9	6.3	6.2	5.7	7.4	7.5	5.5	6.0
GNP implicit deflator	4.7	3.2	3.4	1.5 1/	5.1 1/	2.1 1/	3.3	2.9
Private GNP fixed weight index 2/	4.5	3.4	3.5	1.7 1/	4.5 1/	3.1 1/	3.3	3.0
Personal income	6.8	8.4	9.1	6.3	11.6	6.8	7.4	11.9
Wage and salary disbursements	5.7	9.4	9.6	6.9	15.1	8.0	8.2	8.8
Disposable income	8.0	6.9	10.2	4.3	6.3	6.4	9.8	12.3
Corporate profits before tax	12.1	16.6	16.6	-4.3	24.0	29.5	20.3	26.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.9	13.7	7.4	7.4	36 9	7.4	0.9	11.1
Expenditures	8.0	14.1	8.0	9.5	15.5	17.4	23.8	3.7
Nonfarm payroll employment	0.1	2.8	3.0	2.2	4.3	3.7	2.2	3.8
Manufacturing	-3.9	2.1	3.4	0.9	2.5	4.7	4.2	4.2
Industrial production	0.2	6.3	8.1	3.4	9.3	9.1	7.6	9.3
Housing starts, private	43.1	10.7	-15.0	24.2	48.5	-42.5	-12.3	-18.2
Sales new autos	21.3	5.1	3.8	7.4	-14.9	25.8	0.4	9.3
Domestic models	21.9	5.6	4.6	20.1	-22.2	23.9	1.7	10.8
Foreign models	17.9	1.4	-0.5	-65.4	37.5	37.1	7.8	0.0

1/ At compound rates.

2/ Using expenditures in 1967 as weights.

Industrial production. Industrial production is tentatively estimated to have increased moderately further in July, although at present we have little evidence of any strong advances in output of final products and materials. Also it is not yet possible to assess the effects of the flooding caused by hurricane Agnes on industrial production in late June and early July.

Output of consumer goods in June was 10 per cent above the 1969 peak, a level first reached in April. Available data indicate little change in July. Auto assemblies, after allowance for the model changeover period, were at about the June annual rate of 8.5 million units. In the first two weeks of July, production of household appliances was down somewhat from the record June rate.

Output of business equipment in June was up about 10 per cent from its low but still 10 per cent below the 1969 peak; a further gain in production in July is anticipated. Output of defense equipment has increased somewhat in recent months and it is estimated that some further rise occurred in July.

Production of both construction products and materials for further processing was above the 1969 level in June. Moderate gains are indicated in July in output of construction products, raw steel, aluminum, and paperboard. Crude oil production, however, declined slightly in early July.

Retail sales. Sales in July, according to estimates based on data for the first four weeks, more than recovered the 1.2 per cent decline in June, to reach a new high--about 11 per cent above a year earlier and over 1-1/2 per cent above the second quarter average.

Outlays in July for general merchandise, apparel, and furniture and appliances were particularly strong, as were sales of the automotive group. More complete sample counts have raised earlier estimates of sales in May and June. May now shows an increase of 2.3 per cent from April instead of 1.8 per cent, and June shows a decline of 1.2 per cent rather than 1.4 per cent.

Consumer durables. July unit sales of domestic-type autos were at a 10.0 million annual rate, the strongest this year--up 11 per cent from June and 20 per cent from a year earlier. July sales were bolstered by a final 10-day rate of 10.9 million units, 45 per cent above a year earlier, as several makes, including Chevrolet, ended sales incentive contests. Dealer inventories at the end of July were equivalent to only a 46 day supply, 25 per cent below last July.

Preliminary estimates indicate July sales of imported cars were at a 1.5 million unit rate, up only slightly from a year earlier. The import share of total sales come to 15 per cent, down from 18 per cent in July a year ago.

Partially complete data indicate that unit purchases of major home appliances by retailers were about the same in July as in June, but 7 per cent below July 1971. The decline from a year earlier was traceable largely to air conditioner purchases, off 45 per cent, and in a lesser degree to lagging washer sales. Dishwashers, driers, and electric ranges were one-fourth above last year's levels, with the other items steady or up slightly. Retailer purchases of TVs were 7 per cent below June levels but 7 per cent above a year ago; the situation mainly reflects color TV purchases as monochrome sales were

about the same as in both periods. Radio purchases were up from both a month and a year ago.

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

	1971	1972			Per cent change	
	July	May	June	July	Month ago	Year ago
TVs 1/	113	131	130	121e	-7	7
Radios	85	88	94	98e	4	15
Home Appliances 2/	131	138	120r	121e	1	-7

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, driers, freezers, electric ranges, gas ranges, refrigerators, washing machines, and vacuum cleaners. Weights are 1967 retail sales values.

Consumer credit. Consumer instalment credit outstanding rose at a $15.9 billion seasonally adjusted annual rate during June. Although the rate of expansion was somewhat less than the record $17.3 billion increase in May, the average monthly second quarter expansion of $15.5 billion was by far the largest on record.

Increases in all major types of credit reached new highs during the quarter. Automobile credit accounted for 38 per cent of the growth, a slightly larger proportion than in other recent quarters. The proportion of credit for automotive and nonautomotive consumer goods combined has increased since late 1971; the proportion of personal loans--part of which indirectly reflects purchases of goods--has declined.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Percentage distribution of seasonally adjusted dollar increases)

Date	Total	Automobile	Other consumer goods	Personal loans	Home repair and modernization
1971-QI	100.0	13.2	21.1	62.3	3.5
QII	100.0	34.6	26.8	34.6	3.9
QIII	100.0	36.0	26.7	34.1	3.2
QIV	100.0	36.7	32.5	28.7	2.1
1972-QI	100.0	34.4	33.5	28.5	3.6
QII	100.0	37.9	31.5	27.5	3.1

NOTE: Distribution for the first quarter of 1971 is distorted by the effects of the strike in the auto industry during the fourth quarter of 1970.

Surveys of consumer expectations and intentions. Both the May-June Conference Board survey and the July Census Bureau survey present a mixed outlook for consumer spending. Appraisals of the present economic situation are notably improved in the Conference Board survey with a sharp decline in unfavorable evaluations of present business conditions and more favorable appraisals of the job market. In the Census survey, expectations of a substantial improvement in income are up sharply. Buying plans for homes remain at a high level in both surveys.

On the unfavorable side, the Conference Board reported that expectations about future business conditions are off rather substantially and purchase plans for major appliances are at a low level. Buying plans for new autos declined 4 percentage points in the Census survey from the April survey, but were above a year earlier.[1/] The Conference Board suggests that the mixed consumer responses to their questions are similar to the situation before the 1968 elections and may reflect political uncertainties.

Cyclical indicators. The Census trend-adjusted composite index of leading indicators rose 0.5 per cent further in June (p). The May increase, originally reported at 0.2 per cent, is now shown as 1.4 per cent, reflecting increases in consumer instalment debt change, inventory change, and net business formation. In the 20 months since

1/ The Bureau states that unless a quarter-to-quarter change in the index exceeds 5.6 points it is not statistically significant.

October 1970, the composite index has shown an uninterrupted rise of 25 per cent, equal to the average of the four previous cyclical recoveries.

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

The coincident composite rose 0.7 per cent and the lagging composite rose 0.2 per cent in June (p).

CHANGES IN COMPOSITE CYCLICAL INDICATORS
June 1972 (p)

	Per cent change from:	
	Previous	Three months
12 Leading (trend adjusted)	.5	3.0
12 Leading, prior to trend adjustment	.0	1.8
5 Coincident	.7	2.3
5 Coincident, deflated	.7	2.1
6 Lagging	.2	2.8

In July, common stock prices and industrial materials prices declined, and the manufacturing workweek was unchanged.

Inventories. Book value of manufacturers' inventories rose at an $8.4 billion annual rate in June (p), considerably faster than the May rate of $4.7 billion. Because there had been a decline in April, the rate for the second quarter as a whole, was only $4.3 billion, not much above the first quarter. Wholesale trade stocks

declined in June but also show an increase in accumulation for the quarter as a whole.

Manufacturers have stopped running down their materials inventories but have not yet started to rebuild them; inventory increases continue to be confined to finished goods and work in process. Among major market groupings, there have been increases in accumulation for nondefense capital goods and home goods and apparel, partly offset by decreases for defense goods.

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

	1972			
	Q I	Q II (Prel.)	May (Rev.)	June (Prel.)
Manufacturing and trade, total	5.8	n.a.	14.9	n.a.
Manufacturing, total	3.1	4.3	4.7	8.4
Durable	2.9	3.0	5.5	3.8
Nondurable	.2	1.3	- .8	4.5
Wholesale trade, total	1.0	1.7	1.9	-1.5

The increase in inventories and a decline in durable goods shipments in June brought about a slight increase in the inventory-shipments ratios for total and durable goods manufacturing, but both were well below 1970 and 1971 levels. The ratio of inventories to unfilled orders at durable goods manufacturers dropped fairly sharply in June. This ratio, while still quite high, has nevertheless also shown a significant cyclical decline. The inventory-sales ratio for wholesale trade declined slightly.

INVENTORY RATIOS

	1971		1972	
	May	June	May (Rev.)	June (Prel.)
Inventories to sales:				
Manufacturing, total	1.85	1.82	1.69	1.71
Durable	2.26	2.21	2.02	2.06
Nondurable	1.38	1.37	1.29	1.29
Wholesale trade	1.21	1.20	1.23	1.22
Inventories to unfilled orders:				
Durable manufacturers	.927	.940	.900	.876

Manufacturers' orders and shipments. New orders for durable goods rose 3.8 per cent in June (p). The rise primarily reflected a larger than usual end-of-fiscal-year increase in defense orders; on balance, new orders excluding defense were unchanged.

For the second quarter as a whole, orders for the total and most major groups were substantially above the first quarter; particular strength was evident in household durables and nondefense capital goods. Defense orders were a little above the first quarter rate, and orders for motor vehicles and parts were off slightly.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
Seasonally adjusted, per cent change

	June from May	QII from QI
Durable goods, total	3.8	5.2
Excluding defense	.1	5.4
Primary metals	2.4	7.0
Motor vehicles and parts	- .8	- .9
Household durables	-2.1	8.8
Capital goods industries:		
Nondefense	1.5	8.4
Defense	82.3	1.9
Construction and other durables	-1.3	4.0

Shipments of durable goods declined 1.6 per cent in June, while unfilled orders rose an impressive 3.1 per cent. Order backlogs were up for nondefense capital goods, primary metals, and household durables, as well as defense.

Construction and real estate. Seasonally adjusted value of new construction, which was revised upward by 1 per cent for June, edged to a new high annual rate of $123.9 billion in July. Virtually all of the gain was the private residential construction. Outlays for public construction dipped slightly owing to a drop in activity on Federally-owned projects.

On a year-to-year basis, total outlays in July were up 12 per cent in current dollars, and 8 per cent in real terms. Increases in construction costs have continued to be limited this year with July costs only 4 per cent above a year earlier.

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

	1972				
	QI	QII	May	June	July 1/
Total - current dollars	121.8	122.1	122.4	123.3	123.9
Private	90.7	92.5	92.6	93.3	94.2
Residential	51.5	52.7	52.4	53.0	53.7
Nonresidential	39.1	39.8	40.1	40.3	40.4
Public	31.2	29.6	29.8	30.0	29.7
State and local	26.6	25.1	25.3	25.2	25.2
Federal	4.5	4.5	4.6	4.8	4.5
Total - 1967 dollars	90.0	89.2	89.2	89.7	90.0

1/ Data for July 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts, which had turned upward again in May, changed little in June for a second quarter average annual rate of 2.25 million units. While the second quarter rate was more than a tenth below the peak reached in the first quarter of the year, it was the second highest rate for any quarter in the history of the series. Moreover, it was accompanied by a further increase in mobile home shipments to an annual rate of 600,000 units.

With building permits and mortgage-commitments continuing exceptionally high and with mortgage market conditions relatively easy, only a moderate further drift in housing starts is

likely in the third quarter. Should such a decline eventuate, it will probably be more evenly distributed by type of structure than in the second quarter when multifamily starts accounted for most of the adjustment.

PRIVATE HOUSING STARTS, PERMITS, AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	1971	1972				
	QIV	QI	QII	Apr.	May(p)	June(p)
Starts	2.24	2.51	2.25	2.11	2.33	2.30
1-family	1.25	1.35	1.26	1.17	1.33	1.29
2-or-more-family	.99	1.16	.98	.94	1.00	1.01
Permits	2.12	2.04	1.99	1.93	1.96	2.08
Completions	1.84	1.98	1.86 1/	1.90	1.82	n.a.
Memorandum:						
Mobile home shipments	.51	.57	.60	.63	.57	.60

1/ April-May average
p/ preliminary
n.a. Not available

Nationally, the rental vacancy rate in the second quarter of the year--at 5.5 per cent--was only moderately above a year earlier and still somewhat below the relatively low rate reached in the second quarter of 1969. Demands this year have been at record levels while withdrawals from the existing housing stock have continued unsually high.

RESIDENTIAL VACANCY RATES

	Average for the second quarter of:				
	1965 1/	1969 1/	1970	1971	1972
Rental units	8.2	5.7	5.4	5.3	5.5
Northeast	5.3	3.2	2.9	3.0	3.0
North Central	7.1	5.3	5.9	5.3	6.7
South	8.5	7.3	7.1	7.2	6.9
West	12.6	7.2	5.8	5.6	5.7
Homeowner units	1.5	1.0	1.0	.9	1.0

1/ Data, which are confidential, reflect revisions to include dilapidated units on comparable basis with new series introduced initially for the period beginning 1970.

Labor market. The labor market was generally stable in July following earlier strengthening. After allowance for increased strike activity, nonfarm payroll employment was essentially unchanged between June and July--as were total civilian employment, the labor force, unemployment and the workweek.

The unemployment rate remained at 5.5 per cent in July (seasonally adjusted) following a sharp decline in the previous month. The rate for adult males (25 and over) dropped by 0.3 percentage points to 3.0 per cent, its lowest level since September 1970. Reflecting the decline, unemployment among married men and household heads also fell. However, jobless rates for wage and salary workers, younger workers and Negroes, increased in July.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971	1972		
	July	May	June	July
Total	5.9	5.9	5.5	5.5
Men aged:				
20 to 24 years	10.2	9.4	8.3	9.6
25 and over	3.4	3.4	3.3	3.0
Women, aged 20 and over	5.7	5.9	5.5	5.7
Teenagers	16.5	15.7	14.5	14.8
Household heads	3.6	3.6	3.6	3.3
White workers	5.4	5.3	5.0	5.0
Negro workers	10.0	10.7	9.4	9.9
Private nonfarm wage and salary workers	6.1	6.0	5.5	5.3

The failure of the unemployment rate to rise in July, following the sharp June decline, suggests that unemployment may now

be trending down from the relatively high plateau it was on for over a year and a half. There is a possibility, however, that the unemployment rate might increase if only temporarily in any given month in the near future. The most likely reason would be resumption of more rapid labor force growth. Although the total labor force expanded quite rapidly in the last half of 1971 and early 1972 and is currently up 1.9 million over the year, it is almost unchanged from the March level.

Growth in nonfarm payroll employment, which had been quite rapid since the fall of 1971, slowed in the past few months, with the preliminary estimate for July showing a decline of 80,000. However, in part the poor showing reflected the effects of recent flooding. (The June level was revised upward and now shows an increase of 90,000 rather than the no change originally reported.) Employment advances in services and State and local government in July were more than offset by declines of nearly 100,000 each in manufacturing and contract construction (reflecting in part an increase in construction strike activity of 60,000). Average weekly hours of factory workers remained at 40.7 hours in July after rising in the previous month. The factory workweek has increased significantly since the beginning of the year.

Earnings. Average hourly earnings of production workers on private nonfarm payrolls (adjusted for inter-industry shifts and for overtime in manufacturing) have been increasing at a relatively slow pace since January--4.5 per cent annual rate as compared with 6.7 per cent in the pre-control period of January to August 1971. Preliminary estimates indicate a moderate rise in July following only a small advance over the two preceding months.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Aug. 1971-March 1972	March 1972-July 1972	June 1972-July 1972
	-------Average monthly change----------		
Total	214	134	-82
Goods-producing	54	-4	-187
Manufacturing	46	30	-97
Mining	1	-4	-1
Construction	8	-30	-89
Service-producing	161	137	105
Transportation & p.u.	15	-4	-12
Trade	42	53	1
Finance & services	51	66	80
Federal government	3	-16	-19
State and local gov't.	49	38	55

Slowing in wage raises has been most apparent in the non-industrial sector, especially services, and in construction. The reduced pace of increases in construction is apparently related to activities of the Construction Industry Stabilization Committee. From November through June, the CISC approved collective bargaining agreements with a 5.7 per cent average first year increase in wages and fringe benefits, as compared with an average increase of 13.1 per cent in the first half of 1971. There is, however, a large backlog of cases awaiting review by the CISC (over half of the filings since November have not been disposed of) and these could significantly raise the construction earnings growth rate. In manufacturing, wages of rank and file workers have been increasing at slightly less than the Pay Board guideline of 5.5 per cent, down considerably from the rate that obtained before the freeze.

HOURLY EARNINGS INDEX FOR
PRODUCTION AND NONSUPERVISORY WORKERS*
(Per cent change; seasonally adjusted, annual rate)

	Jan. 1971-Aug. 1971	Jan. 1972-July 1972	Apr. 1972-July 1972	June 1972-July 1972
Private nonfarm	6.7	4.5	2.7	5.3
Manufacturing	6.1	5.2	5.2	5.3
Mining	8.0	4.9	5.7	11.5
Construction	9.0	1.6	-1.8	-5.8
Transportation & p.u.	8.0	9.2	6.0	13.5
Trade	6.5	4.1	3.7	8.0
Finance	7.6	3.8	- .7	4.5
Services	4.4	.5	-4.7	-7.1

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

Productivity and costs. Productivity rose at a rapid rate in the second quarter of 1972--6 per cent annual rate in the private economy and 5 per cent in the nonfarm sector; gains in manufacturing were somewhat lower. The advances occurred in the context of sharp increases in both output and manhours. Productivity estimates for the fourth quarter of 1971 and the first quarter of 1972 were revised upward significantly, due to upward revisions in real GNP. According to these new estimates, growth of private output per manhour over the last three quarters averaged 4.5 per cent (annual rate), considerably above the long run trend growth rate of about 3 per cent.

Compensation per manhour in the private sector slowed to a 5.6 per cent annual rate of increase in the second quarter, substantially smaller than the first quarter 8.1 per cent rise. The rate of increase in the nonfarm sector was somewhat smaller. Because of the large increases in productivity and the relatively small compensation

increases, unit labor costs were about unchanged in both the total private and nonfarm sectors--for the first time in a number of years.

PRODUCTIVITY AND COSTS
(Per cent change from previous quarter; seasonally adjusted, annual rate)

	Output Per Manhour		Compensation Per Manhour		Unit Labor Costs	
	Private	Private Nonfarm	Private	Private Nonfarm	Private	Private Nonfarm
1971: IQ	6.5	6.4	7.7	7.8	1.1	1.3
IIQ	2.0	3.1	6.1	7.2	4.0	4.0
IIIQ	3.8	2.9	6.4	5.6	2.5	2.7
IVQ	4.1	5.4	5.6	6.0	1.5	.5
1972: IQ	3.3	4.5	8.1	8.7	4.7	4.0
IIQ	6.0	5.0	5.6	4.7	-.4	-.2

Collective bargaining. Wage increases in major collective bargaining settlements during the first half of 1972 averaged 7.1 per cent over the life of the contract--down from the 8.1 per cent gain in 1971. The decline reflected in part substantially lower first year increases, particularly in the construction industry, indicating a movement away from the recent practice of front-end loading of contracts. In addition, the contracts were of shorter average duration--about nine months less than previously negotiated in these situations--indicating efforts to keep contracts somewhat shorter during the stabilization period while wage rates are under control. Wage and benefit increases together averaged 7.7 per cent over the life of the contract compared to 8.7 per cent in 1971.

The new settlements covered 870,000 workers, primarily in the aerospace, railroad, and construction industries--significantly

fewer than the 1.3 million covered in the first half of 1971. In part the smaller number so far this year reflects the fact that the Pay Board or Construction Industry Stabilization Committee has yet to act on new settlements affecting a substantial number of workers.

WAGE INCREASES PROVIDED BY MAJOR CONTRACT SETTLEMENTS*
(Mean wage adjustment--annual rate of increase, per cent)

	Year		First Half	
	1970	1971	1972	1972
Average over life of contract				
Total	8.9	8.1	8.0	7.1
Manufacturing	6.0	7.2	6.4	5.5
Nonmanufacturing	11.5	9.0	10.8	7.9
Construction	14.9	11.8	14.2	7.5
First year				
Total	11.9	11.7	10.0	7.5
Manufacturing	8.1	10.3	8.7	7.1
Nonmanufacturing	15.2	12.7	12.0	7.8
Construction	17.6	13.3	13.4	8.0

* Applies to settlements affecting 1,000 or more workers.

Wholesale prices. Wholesale prices rose at a seasonally adjusted annual rate of 8.6 per cent between June and July, the largest monthly increase since last August, largely as a result of a sharp increase in the prices of farm and food products.

Prices of industrial commodities increased at the lowest rate this year, 2.8 per cent, reflecting in large part reduced rates of increase for metals, machinery, lumber and wood products, and paper products.

Consumer nonfood finished goods rose at a rate faster than recently as higher prices were reported for gasoline, apparel,

footwear, and furniture. Producer finished goods, however, increased at a much reduced rate as price increases for machinery and equipment slowed. Further increases for lumber, electric power, textiles, hides and skins, and concrete products accounted for most of the increase in materials--the smallest since last January.

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 July 1972	June 1972 to July 1972	Aug. 1971 to July 1972
All commodities	5.2	-.2	5.7	8.6	4.0
Farm products 1/	6.5	1.1	9.5	24.4	7.2
Industrial commodities	4.7	-.5	4.1	2.8	2.8
Crude materials 2/	3.3	2.3	9.0	12.7	7.1
Intermediate materials 3/	6.5	-.7	4.4	2.0	3.0
Finished goods 4/	2.7	-.9	3.1	2.5	2.0
Producer	3.7	-2.0	3.7	1.0	2.1
Consumer	2.2	-.4	3.0	3.2	2.1

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.

The rate of increase in the index of farm and food products was the largest in almost one and one-half years as prices rose for fresh fruits and vegetables, livestock, grains, dairy products, and manufactured animal feeds. Prices of livestock and meats, which have had a substantial influence on the rise in the WPI in recent months, may show some decline for August. From mid-July to early August, prices of livestock and

meats declined substantially, although some higher prices were noted during the latter part of the first week of August.

Since mid-July, the Administration has moved to curb price increases for hides and lumber and wood products by announcing export controls for cattlehides and reimposing controls on certain firms in the lumber industry. Export controls on hides probably will have little influence on prices of shoes during the remainder of this year as most shoes sold between now and the year-end are either already produced or in process. On the other hand, the reimposition of controls on some firms dealing in lumber and wood products resulted in prices leveling out during the last half of July and could result in some price cuts this month.

Consumer prices. The consumer price index rose in June at less than a one per cent annual rate, seasonally adjusted, bringing the rate of advance for Phase II down to about 3 per cent. The non-food commodity component was unchanged as significant declines for gasoline and apparel offset advances for other goods, mainly durables. Food costs advanced at a 2 per cent rate, seasonally adjusted, and services, 3.7 per cent.

Prices of beef, pork and fresh vegetables rose considerably, but their effect on food costs was offset in part by declines, particularly for eggs. The increase in meat prices followed two months of decline and, according to the Department of Agriculture's chainstore sample, continued in July.

Other nondurable commodity prices were down as apparel declined more than seasonally. In addition, a drop in gasoline prices

reversed part of the May increase. Most durable goods, however, registered significant advances--houses, used cars, new cars (seasonally adjusted) and household durables.

Although service costs continued to rise at under a 4 per cent rate, both the rent and medical care (seasonally adjusted) components advanced at rates over 5 per cent, the most rapid since last June and last August, respectively.

CONSUMER PRICES
(Percentage changes, 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 items	3.3	1.9	3.1	.7	
Food	5.0	1.7	4.0	2.0	3.3
Commodities less food	2.9	-	2.5	-	1.7
Services 1/	4.6	3.1	3.6	3.7	3.4
Addendum:					
All items less mortgage costs 2/	4.6	1.3	3.5	1.5	2.6
Services less home finance 1/ 2/	6.7	1.9	3.5	3.3	3.0
Commodities less food, used cars, home purchases 3/	2.5	.3	2.2	-1.0	1.7

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.

DOMESTIC FINANCIAL SITUATION

II-T-1

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		July p	33.2	3.4	6.2	8.2
Reserves available (RPD's)		July p	30.4	9.5	7.9	7.2
Money supply						
M1		July p	239.5	14.7	7.7	5.3
M2		July p	495.1	11.5	10.0	9.2
M3		June	766.1	11.5	10.8	11.4
Time and savings deposits (Less CDs)		July p	255.6	8.5	12.1	13.1
CDs (dollar change)		July p	38.1	1.0	3.4	7.7
Savings flows (S&Ls + MSBs)		June	275.7	13.6	14.9	16.2
Bank credit (end of month)		July	520.7	10.2	9.6	11.6
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	August 2	4.56	-.05	.31	-1.01
Treasury bill (90 day)	"	August 2	3.82	-.24	.21	-1.48
Commercial paper (90-119 day)	"	August 2	4.73	-.11	-.23	-1.02
New corporate bonds Aaa	"	August 4	7.27	-.11	.07	-.62
Municipal bonds (Bond Buyer)	1 day	August 3	5.32	-.11	.03	-.75
FNMA auction yield	wk. endg.	July 28	7.62	--	.02	-.06
Dividends/price ratio (Common stocks)	"	August 2	2.84	-.03	-.08	-.44
NYSE index (12/31/65=50)	end of day	August 4	60.75	1.24	1.45	8.90
Credit demands			Net change or gross offerings			
			Current month		Year to date	
			1972	1971	1972	1971
Business loans at commercial banks		July	1.4	1.0	5.5	4.3
Consumer instalment credit outstanding		June	1.3	0.5	6.8	2.4
Mortgage debt outst. (major holders)		June	5.6	4.9	23.8	16.9
Corporate bonds (public offerings)		July	4.3e	3.5	18.6e	16.2
Municipal long-term bonds (gross offerings)		July	1.7e	2.0	14.1e	14.9
Federally sponsored Agcy. (net borrowing)		August	0.2e	0.4	2.1e	-0.7
U.S. Treasury (net cash borrowing)		August	0.8e	6.9	2.8e	14.3
Total of above credit items			15.3	19.2	73.7	68.3

e - Estimated

DOMESTIC FINANCIAL SITUATION

Market interest rates generally have declined by 10 to 25 basis points since the last Committee meeting. Nonetheless, short-term rates remain around 100 basis points above the lows reached in the first quarter, while long-term rates are near the mid-point of the relatively narrow range in which they have fluctuated since late in the first quarter.

The general upward adjustment in short-term rates since the first quarter has reflected the impact of a less expansive monetary policy and a step-up in business short-term credit demands. Upward rate pressures in short-markets have been decidedly less acute than previously anticipated, however, as Treasury borrowing demands were well below expectations. The modest volume of Federal borrowing in public markets has reflected higher than expected receipts, lower than projected expenditures, and sales of special issues to foreign central banks. Furthermore, in the refunding just completed, the absence of a short-term issue and the demand for short-term assets from holders of rights was juxtaposed against a limited supply of bills. As bill rates declined, investors shifted to other short-term assets, driving their yields down as well.

In longer-term markets, the relative rate stability in recent months has been associated with the historically wide rate spread between short- and long-term rates, and a moderation of corporate demand on public bond markets--as firms shifted a sizeable part of their financing to short-term debt markets, private placements, and the

stock market. The small market demands of the Treasury also contributed to the rate stability, but anticipation of the large volume of Government securities yet to be issued, as well as forecasts of continued rapid economic expansion and attendant inflationary pressures, have dampened any tendency for long-rates to decline.

Outlook. In the weeks ahead, the recent decline in short-term rates is likely to be reversed, but long-term rates may well continue to fluctuate within a quite narrow range.

Special demands for bills associated with the recent refunding will soon subside. Also anticipation of fourth quarter Treasury borrowing and continued business borrowing in short-term markets will contribute to the re-emergence of upward interest rate pressures in the money market. The upward movement of short-term interest rates may accelerate in the fourth quarter, when the Treasury is expected to borrow $9 billion, net, and short-term business credit and money demands will likely be rising further.

Despite the probability of higher short-term market rates, yields on longer-term securities are likely to continue to fluctuate in a narrow band until late this year. Corporate bond offerings are expected to remain relatively modest over the third quarter reflecting a generation of larger internal funds in the business sector and a continued emphasis on short-term financing. Later in the year, as short-term rates rise, some upward pressure on corporate bond rates probably will develop, and may also extend to the tax-exempt market. Banks have already begun to moderate their rate of acquisitions, and may purchase even smaller amounts of State and local bonds in the

months ahead. In the mortgage market, the high sustained level of inflows to mortgage lenders has led to a continued high pace of new commitments. Even with some increase in short-term rates, therefore, mortgage rates could remain relatively stable over the remainder of this year.

Monetary aggregates. After showing only modest expansion throughout the second quarter, preliminary data indicate that M_1 growth accelerated to a 14.7 per cent annual rate in July, the most rapid pace since May, 1971. The July expansion was concentrated at the beginning of the month, however, with increases during the first two weeks of the period totaling almost $5 billion on a seasonally adjusted basis. While some of this increase may have reflected special timing and seasonal adjustment problems, the early-month bulge is largely unexplained. Following the peak in the week ended July 12, M_1 declined by over $1 billion and subsequently leveled off at a higher level than expected, given the size of the early month bulge. On balance, therefore, it appears that the demand for money did strengthen during July as a whole, probably reflecting the continuing rapid growth in nominal GNP.

In contrast to M_1, the expansion in time and savings deposits other than large negotiable CDs slowed significantly in July to an 8.5 per cent rate, as compared with almost 15 per cent in June. As a result, M_2 grew at an 11.5 per cent rate in July, only marginally ahead of the June pace. Expansion in the credit proxy, however, accelerated sharply in July to a 12.5 per cent rate, as U.S. Government

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971 QIV	1972 QI	QII	May	June	Julyp
		Per cent at annual rates				
M_1 (Currency plus private demand deposits)	1.1	9.3	5.3	2.6	5.6	14.7
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	8.0	13.3	8.6	7.7	10.6	11.5
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	9.6	15.5	10.8	9.7	11.5	n.a.
Adjusted bank credit proxy	9.7	11.3	11.1	14.7	4.7	12.6
Time and savings deposits at commercial banks						
a. Total	15.9	14.8	15.7	17.8	16.3	12.0
b. Other than large CD's	14.7	17.1	11.8	12.6	14.8	8.5
		Billions of dollars 1/				
Memorandum:						
a. U.S. Government demand deposits	-.4	-.1	-.8	--	-2.1	.1
b. Negotiable CD's	1.8	-.1	3.7	1.6	.8	1.0
c. Nondeposit sources of funds	--	-.3	--	.2	--	.1

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

deposits leveled off after declining by about $2 billion in June. In addition, the expansion in the credit proxy reflected a slight pickup in CD's which increased by about $1 billion, $200 million more than the June rise.

Bank credit. Growth in total commercial bank credit (end-of-month series) rebounded in July to about a 10 per cent annual rate after showing no change in June. The July increase was concentrated in the loan component, which expanded at an 18 per cent annual rate, as consumer and real estate loans continued the very strong increases evident for the past year, business loans recovered from their surprising June decline,and loans to nonbank financial institutions advanced significantly. Holdings of U.S. Government securities declined during the month while holdings of other securities showed only a small increase.

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
SOLD TO AFFILIATES 1/

(Seasonally adjusted changes at annual percentage rates)

	1971	1972				
	QIV	QI	QII	May	June	July
Total loans & investments 2/	11.1	15.1	7.3	18.4	--	10.2
U.S. Treasury securities	5.3	9.9	3.9	7.7	--	-17.2
Other securities	20.1	16.1	4.8	23.2	-7.6	2.2
Total loans 2/	9.4	15.7	8.8	18.8	2.5	17.8
Business loans 2/	-3.4	9.6	4.3 3/	10.9	-9.8 3/	13.9
Real estate loans	14.2	14.7	16.6	16.9	18.0	16.4
Consumer loans	13.6	11.7	14.9r	17.0	18.8r	14.4

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 renewed growth in business loans was led, as in earlier months this year, by strong expansion at weekly reporting banks outside New York City. In contrast to the earlier periods, however, New York City banks also figured significantly in the gain, the first time this has been so since aggregate business loans began to expand more rapidly early this year. Several New York City banks have indicated that ordinarily they expect increases in their business loan demand to lag increases at banks outside New York by roughly six months. If this general relationship continues to hold, it could be that the lingering weakness in business loans at these institutions finally has been reversed.

The decline in commercial bank holdings of Government securities in July clearly reflects in part the unusually light volume of market financing during the month by the Treasury due to large acquisitions of dollars from foreign central banks. In recent years, the Treasury has raised much larger sums in the market during July and this is reflected in the seasonal adjustment factors for the month. In addition, however, banks may be generally slowing down their acquisitions of liquid securities in the face of continuing strength in overall loan demand.

This latter possibility also is suggested by the small July increase in holdings of securities other than U.S. Government issues, which continues a pattern that began to emerge during the second quarter. In fact, holdings of other securities -- mainly short-term municipals -- declined considerably more than seasonally at weekly reporting banks outside New York, where loan demand has been consistently strongest.

In the absence of the sharp upturn that occurred in holdings of such issues at New York City banks -- reflecting the delivery of a large volume of short-term New York City notes -- the aggregate figure would have declined.

Despite reduced acquisitions of securities, overall bank liquidity remains very high by recent historical standards. At weekly reporting banks in New York City, the ratio of liquid assets to liabilities, though leveling off in July after spurting sharply upward during the first half of the year, continues to exceed the earlier historical peaks reached late in 1967.[1/] The corresponding ratio for weekly reporting banks outside New York City, where loan demand has been strongest, has drifted down slightly from the historical peak reached at the end of the first quarter of this year, but it continues to hover about the previous highs recorded early in 1971.

Nonbank financial institutions and mortgage markets. Deposit flows into nonbank thrift institutions during June were stronger than estimated at the time of the last FOMC meeting. During the recent mid-year reinvestment period both S&L's and MSB's had a favorable deposit experience; S&L's received a record $1.2 billion in deposits during the first 10 days of July, and New York City mutual savings banks received contraseasonal net inflows during the same period. Moreover, according to estimates based on sample data, large deposit inflows continued throughout the rest of July.

1/ Liquid assets include Treasury and other securities maturing in one year or less, loans to brokers and dealers and domestic commercial banks, holdings of bankers' acceptances and gross sales of Federal funds. Liabilities equals total liabilities less capital accounts, valuation reserves, and demand deposits due to banks.

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
QII p/	11.1	16.0	14.5
May p/	8.2	11.7	10.6
June p/	13.0	18.2	16.6
July e/	12.8	22.2	19.3

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

Outstanding mortgage commitments at S&L's remained high at the end of June, and the seasonally adjusted volume of new commitments was over $4 billion for the fourth consecutive month. In view of this, S&L's have been using some of their increased funds to build up liquidity apparently in anticipation of expected takedowns of outstanding mortgage commitments.

Reflecting increased lending, particularly by S&L's and commercial banks, growth in residential mortgage debt outstanding expanded further during the second quarter to a new record seasonally adjusted annual rate of about $45 billion, according to tentative estimates. Growth in such debt was also bolstered by greater over-all support from federal credit agencies, as enlarged net mortgage purchases by FHLMC plus net extensions of FHLBB advances to S&L's (in contrast to large first-quarter repayments) more than offset reduced net mortgage

takings by FNMA and GNMA. With mortgage credit demands also continuing strong, funds were supplied during the second quarter at little change in contract rates in the primary home loan market, according to the FHA series.

In the secondary market for home mortgages, yields have remained stable during recent weeks. The average yield on forward commitments to purchase FHA and VA mortgages was 7.63 per cent in the latest (August 7) FNMA auction--virtually unchanged since the last FOMC meeting. Offerings to FNMA were again moderate, in view of the ample supply of funds available from other sources, and the trade expects yields on home loans to change little over the near term.

FNMA PURCHASE AUCTION

	Amount of total offers		Per cent	4-month commitments	
	Received (millions of dollars)	Accepted (millions of dollars)	of offers accepted	Discount (points)	Private market yield (per cent)
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)
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
24	124	113	91	5.1	7.62
Aug. 7	106	82	77	5.2	7.63

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. Over the past month interest rates in private long-term securities markets edged downward. Underwriters in the corporate market, encouraged by a relatively light calendar of long-term utility bonds and reports of ample investment flows, tried consistently to nudge bond prices upward, but with little success. By the end of the first week in August, the Aaa new-issue index was 7 basis points below its level at the time of the last FOMC meeting; at these yield levels, new issues were moving slowly.

Tax-exempt yields, reflecting the summer moderation of municipal credit demands, drifted steadily lower over the period to a level 12 basis points below that of mid-July. Although bank purchases of tax-exempt bonds have moderated in recent weeks, fire and casualty insurance company acquisitions apparently have continued at a sizable rate. Interest rates on long-term Government securities were virtually stable over the past month in spite of the new longer-term issues offered in the Treasury refunding operation announced on July 26, with subscription books closing on August 2. (Treasury financing reviewed in short-term markets section).

Stock prices and volume on balance remained relatively unchanged from June to July. The NYSE common stock index of prices declined one per cent over the month of July, and volume averaged a moderate 14.6 million shares daily. Early in August, however, stock prices advanced rather strongly, aparently in response to generally good corporate profit reports, prospective future increases in profits, and peace rumors.

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 (11/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/20)
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:			
July 7	7.38	5.43	6.13
14	7.34	5.44	6.12
21	7.30	5.41	6.10
28	7.35	5.35	6.10
August 4	7.27	5.32	6.14

1/ With call protection (includes some issues with 10-year protection)
2/ Bond Buyer (mixed qualities)

Public bond offerings by corporations in July amounted to almost $1.7 billion; and, based on seasonal patterns, August volume is expected to be only about $1.4 billion. Scheduled utility offerings for September are only half of the volume which would normally be filed for that month at this time, and most underwriters report that few industrial firms have definite financing plans as yet. However, the apparently light forward calendar and general expectations of some rise in interest rates later in the year may induce some firms to accelerate their long-term financing. Moreover, AT&T is expected to return to the

market early this fall with a sizable issue, although no decision has yet been made as to whether the offering will be public or private. Taking into account these various factors, the staff estimates that September volume will be about $1.3 billion, but this forecast is subject to considerable uncertainty.

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

		1972			
	1971	June	July	August f/	September f/
Corporate securities total	3,758	3,325 e/	3,100 e/	2,500	3,500
Public bonds	2,065	1,325 e/	1,700 e/	1,400	1,300
Privately placed bonds	613	800 e/	600 e/	500	700
Stock	1,080	1,200 e/	800 e/	600	1,500
State and local government securities	2,080	2,224	1,737	1,800	1,800

e/ Estimated.
f/ Forecast.

Because of seasonal factors, the monthly volume of private placements and new stock issues in July and August is below the average for the first half of the year. However, the switch from debt to equity financing by utilities--a trend which has been evident for over a year--appears to be unusually dramatic in September. Public utilities have already filed $700 million of new stock offerings for that month. Thus, it appears that the volume of total corporate security issues, after a distinct dip in the summer months, could return to a $3.5 billion level in September.

Long-term State and local offerings during the month of July were $1.7 billion, the smallest volume in eight months and 20 per cent below the average for the first half of 1972. Revenue bonds have consistently represented over one-third of the volume of tax-exempt securities this year, and the proportion may increase as industrial pollution control issues become even more important in the months ahead, in light of recent clarification by the IRS of their tax-exempt status.

Short-term interest rates. Short-term interest rates have generally declined since the July 18 FOMC meeting. With money market conditions remaining generally unchanged and edging up during the most recent week, the downward pressure on short rates stemmed in part from a relatively short supply of Treasury issues available in the market, resulting to some extent from foreign central bank market purchases during late June and the first half of July. The market's adjustment to the outlook for a substantially reduced volume of net market borrowing by the Treasury over the third quarter--reflecting foreign central bank acquisitions of special Treasury issues and lower Treasury expenditures so far in the current fiscal year than generally expected--also established an atmosphere receptive to some downward movement in rates. Against this background, the absence of a short-term "anchor" issue in the Treasury's mid-August financing operation placed significant downward pressure on Treasury bill rates and generated sympathetic movements in private short-term rates, as investors began switching from their holdings of "rights" to bills and dealers bid aggressively in bill auctions particularly for long-term bills. In recent days, however, Treasury

bill rates have backed up to some extent, but they still remain about 10 basis points below their levels at the time of the July meeting. Private short-term rates have not as yet responded to these recent advances in bill rates.

SELECTED SHORT-TERM INTEREST RATES

	1972			Basis point change
	July 18	Aug. 2	Aug. 8	July 18 - Aug. 8
Federal funds	4.58 2/	4.56 1/	4.66 2/	+8
Treasury bills				
3 month	3.97	3.77	3.88	-9
6 month	4.49	4.27	4.39	-10
1 year	4.86	4.73	4.75	-11
Federal agency				
1 year	5.32	5.12	5.10	-22
Commercial paper				
90-119 day	4.88	4.62	4.62	-26
60-89 day CD's	4.62	4.50	4.50 3/	-12

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

The Treasury's financing operation was highly successful. Market participants owning more than $19 billion of eligible "rights" exchanged more than $8 billion of these holdings for new issues--including $4 billion for a 3-1/2 year note yielding 5.96 per cent, $3 billion for a 7-year note yielding 6.25 per cent, and $1.1 billion for a 12-year bond yielding 6.45 per cent. These represent relatively large exchanges particularly in the two longer term issues even after allowance is made for the provision that eligible securities maturing

beyond 1972 could only be exchanged into the longer term issues and that there was a comparatively large volume of foreign central bank subscriptions for the longer-term issues. In view of the favorable market reception of the offering, attrition on the August 15 and September 15 maturity dates will amount to only $600 million and $500 million, respectively. Dealer's net exposure in the financing--that is, securities acquired in the exchange less volume sold on a when-issued basis--amounted to about $1.1 billion, but this exposure had been reduced to about $0.8 billion by August 8.

Preliminary data indicate that nonbank commercial paper placed through dealers increased (on a seasonally adjusted basis) about $93 million from the end of June to the end of July, following a June increase of about $850 million. For the first seven months of the current year nonbank dealer paper has increased by about $1 billion. July data for directly-placed paper are not yet available. During June, directly-placed paper expanded $518 million, raising to about $650 million the increase for the first half of the current year.

Federal finance. The staff estimate of Federal outlays for fiscal year 1973 has been raised by $4.0 billion to a level of $257.0 billion since the preceding Greenbook. Our estimate of total receipts remains unchanged at $226 billion so that the projected deficit is now estimated at $31.0 billion.

Among other things the increased outlay estimate reflects: (1) the $1.8 billion flood relief program proposed by the President on July 17th; (2) the assumption that general revenue sharing will be enacted with benefits retroactive to January 1, 1972 (rather than July 1,

as previously assumed); and (3) recent House and Senate action that would increase veteran's benefits. The assumed period of retroactivity of revenue sharing has been extended because the bill passed by the House and the one now under consideration by the Senate Finance Committee follows the Administration recommendation for making benefits retroactive to January.

A reconciliation of the Administration's official June 5 estimate of fiscal 1973 outlays and the larger current staff estimate is provided in the following table. Of the $7.0 billion difference between Staff and Administration estimates, $2.4 billion is due to legislation enacted after June 5--including the 20 per cent social security benefit increase--and $4.6 billion is due to our estimate of pending legislation or revised estimates of uncontrollable items such as unemployment insurance benefits and interest on the debt.

Our increased spending assumptions, together with recent revisions in the NIA accounts, have resulted in a sharper shift toward deficit in the full employment budget estimates for the current half year. We now expect about a $16.0 billion shift toward deficit from the first to the second half of calendar 1972 and a further shift of more than $7.0 billion in the first half of calendar 1973.

The Treasury's end-of-July cash balance was $8.8 billion, more than three billion higher than estimated by the Staff in the July Greenbook. Sales of special issues to foreign central banks were $3.0 billion, much greater than expected and, apparently, Federal outlays

RECONCILIATION OF STAFF AND ADMINISTRATION ESTIMATES OF BUDGET OUTLAYS IN FISCAL YEAR 1973

	--------billions of dollars--------		
Total outlays, June 5 mid-session Budget Review			250.0
Plus: Effect of Legislation enacted since June 5			
1. Social Security bill		2.1	
(1) 20% benefit increase	4.1		
(2) Failure to enact proposed social security liberalization and medicare proposals	-2.0		
2. Extension of unemployment benefits		.3	
Subtotal			2.4
Plus: Staff estimate of other changes			
1. Proposed flood relief program		1.8	
2. Acceleration of Vietnam air-war		2.5	
3. Unemployment insurance benefits		-.5	
4. Veterans' benefits		.4	
5. Other, net (including interest on debt)		.4	
Subtotal			4.6
Total outlays, current Staff estimate			257.0

were considerably below the Staff projection. The combination of a high end-of-fiscal-year cash balance and third quarter net cash borrowing of $4.9 billion--already raised for the most part in the form of special issues and bills--is expected to cover Treasury cash needs until late September or early October depending on the timing of the retroactive payment for general revenue sharing. But net borrowing from the public in the fourth quarter of the current calendar year is still expected to be large, probably totaling $9 billion. Market pressures from refunding operations will be minimal, however, since all but $3.0 billion of the 1972 maturities remaining after August were exchanged in the recent prerefunding. Maturities not prerefunded may be largely refinanced with new cash issues rather than by refunding.

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

	Fiscal Year 1972*	Fiscal 1973e/ Mid-year Review	Fiscal 1973e/ F.R. Board	Calendar Year 1972 1/	Calendar Quarters F.R.B. Staff Estimates 1972 I*	1972 II*	1972 III	1972 IV	1973 I	1973 II
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-23.0	-27.0	-31.0	-22.1	-10.5	5.8	-7.9	-9.5	-14.3	0.7
Receipts	208.6	223.0	226.0	224.1	48.1	67.3	56.9	51.8	51.2	66.1
Outlays	231.6	250.0	257.0	246.2	58.6	61.5	64.8	61.3	65.5	65.4
Means of financing:										
Net borrowing from the public	19.4	n.a.	27.1	11.7	3.9	-6.0	4.9	8.9	12.3	1.0
Decrease in cash operating balance	-1.3	n.a.	3.3	5.6	3.6	-2.4	3.2	1.2	--	-1.1
Other 2/	4.9	n.a.	.6	4.8	3.0	2.6	-.2	-.6	2.0	- .6
Cash operating balance, end of period	10.1	n.a.	6.8	5.7	7.7	10.1	6.9	5.7	5.7	6.8
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	n.e.	.4	1.2	0.9	n.e.	n.e.	n.e.
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	-20.9 1/	n.a.	-35.9	-25.6	-14.8	-21.0 1/	-35.2	-31.3	-36.2	-40.6
Receipts	212.2	n.a.	230.6	226.4	221.4	225.6 1/	226.1	232.4	233.8	230.0
Expenditures	233.2	n.a.	266.4	252.0	236.3	246.6	261.3	263.7	270.0	270.6
High employment surplus/deficit (NIA basis) 1/	4.3	n.a.	-16.5	-4.6	8.6	-1.7	-13.5	-11.8	-18.0	-22.6

*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

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

Footnote continued
3/ Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	Aug.	Sept.	Oct.
Total net borrowing	4.1	0.8	--	4.0
Weekly and monthly bills	0.6	0.4	--	--
Tax bills	--	--	--	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	0.5	4.0
Special issues to foreigners	3.1	-.1	--	--
Agency transactions, debt repayment, etc.	.4	0.5	-0.5	--
Plus: Other net financial sources[a/]	-0.8	-0.4	1.0	1.3
Plus: Budget surplus or deficit (-)	-4.4	-3.4	- .1	-6.8
Equals: Change in cash balance	-1.1[b/]	-3.0	.9	-1.5
Memoranda: Level of cash balance end of period	9.0[b/]	6.0	6.9	5.4
Derivation of budget surplus or deficit:				
Budget receipts	14.8	18.3	23.8	14.6
Budget outlays	19.2	21.7	23.9	21.4
Maturing coupon issues held by public	--	2.3[c/]	1.8[c/]	--
Net borrowing by gov't-sponsored agencies	0.3	0.2	0.5	0.5

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ In the refunding, $1.7 billion and $1.3 billion, respectively, were exchanged for the August and September maturities, leaving $600 million and $500 million to be redeemed in cash.

INTERNATIONAL DEVELOPMENTS

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

	1971		1972p/		
	Year	QI	QII	May*	June*
Goods and services, net 1/	727	-1,147			
Trade balance 2/	-2,689	-1,673	-1,930	-610	-585
Exports 2/	42,770	11,809	11,465	3,865	3,889
Imports 2/	-45,459	-13,482	-13,395	-4,475	-4,474
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	-247	-78	-207
Bank-reported claims -- liquid	-566	-518	320	110	-122
" " " other	-2,372	-764	98	124	-133
Nonbank-reported claims -- liquid	-506	-175		-38	
" " " 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	166	55	33
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	1,150	400	845
Commercial banks abroad	-6,908	438	947	387	589
Of which liab. to branches 3/	(-4,942)	(-200)	(399)	(-40)	(2)
Other private foreigners	-465	61	284	41	203
Intl. & regional institutions	682	29	-81	-28	53
Other nonliquid liabilities	-560	21			
Liab. to foreign official reserve agencies	27,417	2,848	1,053	-521	1,015
U.S. monetary reserves (increase, -)	3,065	607	-53	-44	6
Gold stock	866	544	--	--	--
Special drawing rights 4/	468	--	7	--	--
IMF gold tranche	1,350	-1	185	-4	-6
Convertible currencies	381	64	-245	-40	12
Errors and omissions	-10,928	480			
BALANCES (deficit -) 4/					
Official settlements, S.A.		-3,455	-1,000		
" " , N.S.A.	-30,482	-3,258	-719	565	-1,021
Net liquidity, S.A.		-3,290			
" " , N.S.A.	-22,719	-3,075		93	
Liquidity, S.A. 5/		-3,983	-2,150		
" , N.S.A.	-23,791	-3,824	-2,872	165	-1,866

* 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/ Not seasonally adjusted.
4/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.
5/ 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. After a speculative outburst that lasted about a month -- from the attack on sterling in mid-June to the EC finance ministers meeting on July 17-18 and the announcement on July 19 of the reactivation of System swap operations -- an uneasy stability returned to foreign exchange markets. The over-all balance of payments on the official settlements basis was virtually zero in the two weeks after July 19, as a continuing large deficit on current account and long-term capital was offset by a rise in liabilities of U.S. banks to their foreign branches. The Bank of Japan has been the principal official purchaser of dollars in the market; exchange rates for most other currencies against the dollar retreated a bit from their ceilings.

Recent inflows of short-term funds to the United States do not appear to reflect any great resurgence of confidence in the exchange rate structure. Rather the exchange market appears to be adjusting from an over-sold position on the dollar, while at the same time potential speculators and hedgers are being confronted with a network of barriers constructed by many countries to fence out unwanted capital inflows. The same barriers probably encourage Americans holding short-term positions abroad to keep those positions while awaiting further developments.

Announcement of a June trade deficit still at a $7 billion annual rate confirmed the stubbornness of the underlying deficit in the U.S. balance of payments. Projections reflecting the latest interagency discussions suggest that for the rest of the year there may be little if any reduction from the first half $13 billion annual rate of deficit for current account and long-term capital movements combined. One of the difficulties that lies ahead is the possibility of stronger than expected imports of petroleum and food. In addition, while the potential beneficial effects of devaluation on import volumes are still well in the future, further price increases for imports are likely to be experienced in the second half of the year in consequence both of the devaluation and of rising economic activity abroad.

In line with earlier projections, merchandise exports are expected to move up steadily for the rest of the year and through next year, gradually narrowing the trade deficit, as demand abroad strengthens. However, projected gains in the service accounts have been scaled down, mainly reflecting the impact of higher interest rates on a mounting level of reserve liabilities.

Foreign exchange markets. Following a month of turmoil surrounding the sterling crisis and its aftermath, exchange markets have been relatively calm in recent weeks, with the dollar strengthening against most European currencies. The EC Finance Ministers

meeting of July 17-18 was concluded with a re-affirmation of intention to maintain the Smithsonian exchange rates and margins, and brought to an end the speculation on a joint EC float against the dollar which had resulted in an inflow of $2.7 billion into EC and Swiss central bank reserves on the previous Thursday and Friday.

The dollar's recovery was aided by the announcement on July 19 of the System's intervention in German marks and its re-activation of the inter-central bank swap network. Actual System sales of marks were quite small, but seem to have had a very favorable pyschological effect on market participants.

Major European central banks purchased, net, less than $20 million in the three weeks from July 19 to August 9, compared to net purchases totaling about $5 billion from June 23 to July 18. At present, spot rates for the mark and the guilder are about 3/4 percent below their upper limits, while the Swiss franc is about 1/2 percent below its ceiling. The currencies of France and Belgium have remained at or close to their ceilings. Three-month forward rates for all of these currencies are still somewhat above the upper limits of the spot rates.

The Japanese yen has remained at its upper limit since the Japanese market was re-opened on June 29. The Bank of Japan has had to intervene nearly every day since then, and from June 29 to August 9 purchased a total of $1.5 billion. Japan still has a large basic surplus, quite apart from short-term capital movements.

Sterling has traded around $2.45 for the past three weeks, about 6 percent below its former central rate. The Bank of England intervened in modest amounts on a few days, keeping the rate from rising above that level. The System continued to purchase sterling, mainly from the Bank of England, but partly in the market, and from July 12 to August 9 repaid $565 million equivalent of sterling swap drawings, bringing the outstanding total down to $98 million equivalent.

The System repaid the remaining $50 million equivalent of mark swap drawings on July 24, using balances purchased from the Bundesbank.

While exchange markets were quieter, the gold market experienced a new burst of speculation early in August, widely attributed to reports of discussions between French and Italian authorities regarding the possibility of valuing gold closer to the market price for purposes of intra-EC reserve settlements. The London market price hit a peak of $70 on August 3, before easing back to about $66.

Euro-dollar market. Euro-dollar interest rates advanced sharply around mid-July when very heavy selling pressure on the dollar re-emerged for two days just before the EC Finance Ministers meeting of July 17-18. (See Foreign Exchange Markets). On July 18, one- and three-month funds, at nearly 6 percent, were close to the peak levels reached in late June just after sterling's floating.

Since then, rates in these maturities have eased to about 4-3/4 percent and 5-3/8 percent, respectively. The overnight Euro-dollar rate remained quite high from mid-July through the end of the month -- exceeding the Federal funds rate on average by over 2-1/2 percent in the week ended August 2. In recent days the overnight rate has been around 4-1/4 percent, or about 3/8 percent below the Federal funds rate. (See table below for details.)

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

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differential (1)-(2)	(*)	(4) 1-month Euro-$ Deposit 1/	(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	4.07	4.46	-0.37	(0.65)	4.82	4.50	0.32	(1.53)
July	5.20	4.55	0.65	(1.95)	5.34	4.72	0.62	(1.96)
July 12	4.30	4.62	-0.32	(0.76)	5.09	4.79	0.30	(1.57)
19	4.90	4.46	0.44	(1.67)	5.63	4.74	0.89	(2.30)
26	5.19	4.54	0.65	(1.95)	5.41	4.62	0.79	(2.14)
Aug. 2p	7.25	4.56	2.69	(4.50)	5.40	4.61	0.79	(2.14)
9p	4.15	4.65	-0.50	(0.54)	5.08	4.61	0.47	(1.74)

1/ All Euro-dollar rates are noon bid rates in the London market; over-night 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.

Gross liabilities of U.S. banks to their foreign branches have continued to exhibit marked changes from Wednesday to Wednesday in recent weeks, but partial data indicate that the banks' Eurodollar positions subject to Regulation M reserve requirements averaged about the same in the four-week period ended August 2, as in the previous four-week computation period.

Balance of payments. As a result of heavy speculative outflows, added to a large underlying deficit, the official settlements deficit for the month of July approached $5 billion. This deficit, concentrated in the first two weeks of the month, was larger than the $4.4 billion deficit (seasonally adjusted) registered for the entire first half of 1972. In the latter part of July, foreign official reserve gains were relatively small and accrued mainly to Japan. However, part of the dollars purchased were transferred to Japanese commercial banks.

A sizable part of the bulge in the official settlements deficit in the earlier part of July resulted from a reduction of over $1 billion in liabilities of U.S. branches and agencies of foreign banks (mainly liabilities to their head offices and affiliates abroad) and a smaller reduction in liabilities of U.S. banks to their foreign branches. The sharp turn to a nearly zero balance on official settlements in the two weeks ended August 2 reflected not only a cessation of speculative outflows, but also a rise of about $850 million in liabilities to foreign branches of U.S. banks.

The ebb and flow of short-term capital accounted for most of the variation in the official settlements balance between the first and second quarters. Preliminary and partly estimated data for the second-quarter balance of payments accounts, summarized in the following table, illustrate that most of the reduction from the first-quarter deficit resulted from a turnaround in flows of U.S. loans and short-term investments abroad by U.S. banks, together with a larger inflow of private short-term funds, chiefly through increases in liabilities to commercial banks abroad (including U.S. bank branches). These flows shifted from a net outflow in the first quarter of about $1/2 billion to an inflow of over $1-3/4 billion in the second. Most of the quarter to quarter change in U.S. banks' reported claims on foreigners resulted from a turnaround in lending to Canada and a more rapid liquidation of credits to Japan.

SUMMARY U.S. BALANCE OF PAYMENTS
(millions of dollars, seasonally adjusted)

	1Q	2Qe/
Current account	-1,534	-1,600
Govt. grants and credits	-945	-970
U.S. long-term capital	-1,654	-1,750
Foreign long-term private capital	892	1,220
Total, current account and long-term capital	-3,241	-3,100
U.S. private short-term capital	-1,225	800
Bank-reported	-1,084	775
Other	-141	25
Foreign private liquid short-term capital	528	1,150
Errors and omissions	480	150
Official settlements balance	-3,455	-1,000

e/ Partly estimated.

An important feature of the first-half balance of payments was the inflow of foreign private short-term to the United States in the form of an increase in liabilities to foreign commercial banks reported by the agencies and branches in this country of foreign banks. Before seasonal adjustment such liabilities rose by about $2-1/2 billion. As noted above, over $1 billion of these funds returned abroad in July. There was only a minor increase of about $200 million in the first half in liabilities of U.S. banks to their foreign branches, and the level of these liabilities has not changed much since March. Of course, any buildup in liabilities to branches is inhibited by the 20 percent reserve requirement.

In contrast to the shift in short-term capital flows, the main basic elements of the balance of payments were little changed from quarter to quarter. The merchandise trade balance worsened somewhat, as discussed in the following section, while the balance on services and income improved slightly. Outflows of U.S. private long-term capital are believed to have increased somewhat, partly because of larger increase in long-term lending by U.S. banks. Inflows of foreign private capital classified as "long-term" are thought to have improved mainly because earlier large net withdrawals of funds from the United States by U.S. affiliates of Japanese trading companies were no longer occurring. Also, foreign purchases of the offshore issues of U.S. corporations increased sharply in June. These favorable shifts more than offset a sharp drop in

foreign purchases of U.S. corporate stocks, from an inflow of $680 million in the first quarter to only $175 million in the second. Indications are that foreigners sold U.S. corporate stocks, on balance, in July.

U.S. foreign trade. The U.S. trade deficit in June was only slightly less than in May as exports inched up while imports were unchanged. For the second quarter the trade deficit was at an annual rate of $7-3/4 billion (balance of payments basis) compared with $6-3/4 billion in the first quarter. Although the trade balance in the second half of the year is expected to show some improvement, the deficit for the year as a whole is likely to be well over $6 billion, more than twice as large as the $2-3/4 billion deficit of 1971.

The greater rise in import prices than in export prices was a major factor in the larger trade deficit this year. In January-June of this year import unit-values were about 6 percent higher than in the first six months of last year; export unit-values rose by less than 2 percent. Approximately one-half of the increase in the trade deficit this January-June, compared with the year-earlier period, was attributable to this differential price movement. In volume terms, imports rose 10 percent in January-June (after adjustment for dock-strike effects) compared with the same period last year, while the volume of exports rose by less than 3 percent over this

period. The possible effect on import prices of the devaluation and recent price trends in other countries is discussed on page III - 13.

Both exports and imports over the first six months were considerably higher in value than last year, but have tended to stabilize at the high levels reached in February. (January trade levels were inflated by dock-strike makeups). Imports of finished goods (apart from automobiles) were very strong in the early months of the year (partly because of dock-strike makeups) and, after a dip in April and May, turned up again in June.

With the acceleration in domestic economic activity, imports of industrial materials -- particularly steel and other metals -- have begun to increase in recent months. Imports of foodstuffs (especially meat, fish, and sugar) have also turned up, reflecting increases in both quantity and price. Imports of fuels have advanced at an accelerating rate this year.

The upturn in imports of foods and industrial materials in April and May offset the decline in imports of finished goods (other than automobile) in those months. In June only a very sharp drop in imports of cars from Japan and Europe (following heavy imports in the first five months) kept imports relatively unchanged, as all other major import groups rose. Sales of European and Japanese cars rose in June, suggesting that the downturn in June imports may have

been an adjustment of inventories following a large buildup earlier in the year.

The ratios of imports to total domestic expenditures for corresponding commodity categories of finished goods -- capital goods, automobiles and other consumer goods -- continued their upward trend in the first half of the year.

The major source of strength in exports this year has been the very heavy shipments of agricultural commodities. These result from larger grain shipments to the USSR, higher prices for soybeans and cotton, and possibly some foreign buying in anticipation of shorter supplies in competing agricultural exporting countries -- Australia and Argentina. U.S. exports of agricultrual products in the first half of this year were running at an annual rate of $8-3/4 billion -- about $1 billion more than in calendar 1971. Exports of machinery and other nonagricultural commodities, in contrast, have been flat since January. Since shipments of agricultural commodities are unlikely to expand much further, and since deliveries of commercial aircraft (also high in the first half of the year) have also peaked, increases in total exports in the second half of the year depend on an acceleration of exports of machinery and industrial materials as foreign industrial production strengthens.

Our trade balance with all major areas worsened in the first half of this year. The trade deficit with Japan rose to about $4 billion at an annual rate compared with a $3-1/4 billion

deficit in the first half of 1971. Exports to Japan were only moderately higher this year than in the same period of last year, while imports rose by over 20 percent. Although exports to Canada have advanced strongly -- being 15 percent higher this year than in the year-earlier period -- imports increased even more. Consequently, our trade deficit with that country jumped to an annual rate of nearly $2-1/2 billion from a $1-3/4 billion rate in the first six months of 1971. With imports from the Western European countries up sharply while exports to them were only slightly higher, our customary trade surplus with these countries has turned into a deficit this year.

Import prices after the devaluation. Unit value data for U.S. imports this year do not seem to reflect fully the changes in exchange rates which have taken place since May 1971. With a weighted dollar devaluation of approximately 9 per cent vis-à-vis the industrial countries, and with foreign wholesale prices for manufactured goods rising at a rate of at least 4 per cent a year, U.S. import unit values for manufactured goods might have risen about 14 per cent if the exchange rate changes were reflected fully.[1/]

In fact, however, U.S. import unit values for finished manufactures rose only by 7.0 per cent from the first half of 1971 to the first half of 1972 -- less than corresponding increases of 8.6 and 8.2 per cent in 1970-71 and 1969-70, respectively. A flattening in the rise of U.S. import prices in the first half of 1972 could have been expected because domestic prices levels here and abroad have flattened out over the past year. A trend rise in import prices of 4-5 per cent might be consistent with these domestic price movements. Consequently, it would seem that no more than roughly one-third of the 9 per cent devaluation has so far been reflected in U.S. import unit values.

There are several possible explanations for this. (1) Foreign exporters may have lowered their local currency prices for

1/ For total U.S. imports, the expected rise would have been somewhat lower, since, in dollar terms, basic commodity prices rose less than prices for manufactured goods.

exports, at least temporarily. (2) More important, perhaps, changes in transaction prices for U.S. imports may be reflected in import unit values only with a lag. (3) It is possible, also, that there may have been shifts in the commodity composition of U.S. imports that would tend to hold down the increase in our unit values. (4) Finally, foreign exporters may have tried to protect their U.S. market by raising their prices in the United States less than elsewhere.

There is some evidence to support the suggestion that foreign exporters may have absorbed part of the exchange rate change. Given the slack in many economies, such behavior might be expected. A comparison of the behavior of export unit values of industrial countries, in local currencies, with that of wholesale prices of manufactured goods in those countries, is presented in Table 1. In each country, except Italy and the United Kingdom[2/], export unit values fell relative to wholesale prices from February-April 1971

2/ The United Kingdom is the only country in which export unit values rose faster than wholesale prices. Apparently, exporters increased their profit margins significantly in spite of the relatively rapid rate of increase of unit labor costs (reflected in the high rate of increase of wholesale prices). It is not clear why U.K. exporters acted so aggressively, given that the volume of their exports has been declining since end-1971. The sterling exchange rate, vis-à-vis an average of currencies of other industrial countries, was essentially the same just prior to the latest crisis in mid-June as it was in May, 1971.

to February-April 1972.[3/] In spite of a general historical tendency for export unit values to rise more slowly than wholesale prices in some countries, this comparison does suggest that foreign exporters have tended to absorb part of the revaluation effect in their profit margins.

However, evidence from the two countries for which actual export price data are available -- Germany and Japan -- suggests that the degree of absorption might not have been very great. In Germany, export prices fluctuated in a very narrow range from April 1971 to the end of last year, falling slightly relative to wholesale prices, which levelled-out significantly in this period. Beginning in January of this year, however, export prices have risen by the same amount as wholesale prices. Thus, although German exporters may have absorbed some of the price effects of the mark revaluation in 1971, they have apparently not done so this year.[4/] Export price

3/ April is the latest month for which export unit value data are generally available.

4/ It is interesting to note that this experience is in marked contrast to the period following the revaluation of 1961, when German exporters lowered the DM price of their exports significantly. The crucial difference between 1961 and 1971 may be that in 1961 Germany revalued alone, whereas last year Germany's competitors -- notably Japan -- also revalued (by even more than Germany, in the case of Japan). However, in 1969, when Germany again revalued alone, the DM price of German exports did not fall.

Table 1. Export Unit Values and Wholesale Prices in Selected Industrial Countries

	Percentage change, February-April 1971 to February-April 1972	
	Export Unit Values in local currency	Wholesale Prices
France	+2.6	+4.6
Germany	+1.9	+2.6
Italy	+1.8	+1.8
Netherlands	+0.6	+2.1 1/
United Kingdom	+8.2	+6.2
Japan	-2.7 2/	0
Canada	+2.6	+6.9

1/ Refers to January-March, instead of February-April.

2/ Refers to export prices, rather than unit values.

data for Japan indicate that exporters in that country have behaved in a similar fashion. On the whole there does not seem to be strong evidence that foreign exporters are absorbing much of the exchange rate effect on U.S. import prices.

Probably more important is the "contract" lag between the time when order terms, including prices, are set, and the time the goods are shipped, when they show up in unit value data. Again, if we look at Germany, where both export price and export unit data are

available, we find that the two series have diverged since January: export unit values have tended to fall, but export prices have risen. The downward trend of export unit values this year may reflect the fall in export prices in September-November. On this basis, German export unit values should begin to turn up soon, given the upward movement of export prices since December. Correspondingly, the higher dollar prices actually charged on new contracts for U.S. imports early this year may show up only gradually, over a period of months, in our statistics. This possibility seems to be supported by recent U.S. unit value data, which were level from March through May and then turned up in June.

Shifts in the commodity composition of U.S. imports could also exert a downward bias on our import unit values. If U.S. importers shift to cheaper commodities -- as might be expected following a revaluation -- import unit values would tend to fall. However, such shifts are not yet apparent. Similarly, although it is possible that foreign exporters have, in fact, lowered the local-currency price of their exports to the United States, because of the size and importance of the U.S. market, while raising their prices to other markets enough to preserve their profit margins, this cannot be confirmed on the basis of the import price experience of other countries.

On the whole, the most plausible explanation of the failure of U.S. import unit values to rise as much as might be expected seems to be the lag between contract and delivery times. As old contracts expire, U.S. import prices may rise further. This means, in other words, that not all of the oft-cited perverse effect of the devaluation in raising the value of U.S. imports is behind us.

APPENDIX A: DEMAND DEPOSIT OWNERSHIP*

The demand deposit ownership survey for the second quarter of 1972 suggests that the slowdown in the seasonally adjusted rate of growth of the demand deposit component of M_1 over that period (line 7 of the table) was concentrated in the holdings of nonfinancial businesses (line 1b) and consumers (line 1c). It should be noted, however, that experience with the demand ownership survey is limited, and that insufficient data exist to evaluate the normal seasonal movement of specific ownership categories. In addition, ownership data are gross -- i.e. before deduction of cash items and float (line 5) -- and thus changes in gross holdings by sector over a quarter can be distorted by changes in cash items and float.

With these caveats, it appears as if consumers, who had accounted for a large proportion of the increase in M_1 in the second half of 1970 and the first half of 1971, continued to slow their rate of increase in money holdings. Nonfinancial businesses, as expected in a period of rapid growth in economic activity, began to add more rapidly to their transaction balances in the final months of 1971, but moderated somewhat their rate of increase in demand balances in the most recent quarter.

Private foreign (line 1d) and foreign commercial bank and official balances (line 3) showed only a modest increase in holdings in the second quarter. In the first quarter of 1972, such balances had declined sharply.

Financial businesses (line 1a) continued to reduce their holdings of money in the second quarter, but not as rapidly as in the first quarter. All other changes were modest.

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CHANGES IN DEMAND DEPOSIT OWNERSHIP
First Half, 1971 and 1972
(Millions of Dollars, Not Seasonally Adjusted)

	II		QI		HI	
	19	1971	1972	1971		
1. Gross Demand Deposits held by individuals, partnerships, and corporations - total 1/	+4,154	+5,492	-4,489	-4,851	-335	+641
a) Financial Business	-215	-383	-356	+999	-571	+616
b) Nonfinancial Business	+3,165	+3,844	-4,437	-6,628	-1,272	-2,784
c) Consumers	+823	+1,886	+438	+520	+1,261	+2,406
d) Foreign	+67	-69	-9	+86	+58	+17
e) All Other	+313	+215	-123	+171	+190	+386
2. Plus: Gross Certified and Officers Checks and State and Local Deposits 2/	+535	+805	-268	+325	+267	+1,130
3. Plus: Gross Foreign Official, Foreign Commercial Banks, and M_1 Type Balances at Foreign Agencies and Branches	+71	+44	-706	-16	-635	+28
4. Equals: Gross Demand Deposits in M_1	+4,760	+6,341	-5,463	-4,542	-703	+1,799
5. Less: Cash items in the Process of Collection and Federal Reserve Float 3/	+2,680	+1,642	-1,994	-1,282	+686	+360
6. Equals: Demand Deposit Component of M_1	+2,080	+4,699	-3,469	-3,260	-1,389	+1,439
7. (Memo: Seasonally Adjusted Demand Deposit Component of M_1)	+2,082)	(+4,746)	(+4,129)	(+3,909)	+6,211)	(+8,655)

1/ Based on sample survey.
2/ Estimated as residual.
3/ Adjusted for transactions of Edge Act Corporations and Agencies of Foreign Banks.