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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

September 12, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

September 12, 1973

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Aug.	9/7	88.7	-2.1	1.1	2.0
Unemployment rate	Aug.	9/7	4.8	4.7[1/]	5.0[1/]	5.6[1/]
Insured unemployment rate	July	8/25	2.6	2.7[1/]	2.7[1/]	3.6[1/]
Nonfarm employment, payroll (mil.)	Aug.	9/7	75.8	4.6	2.6	3.8
Manufacturing	Aug.	9/7	19.8	0.8	0.6	4.4
Nonmanufacturing	Aug.	9/7	56.0	6.0	3.3	3.6
Private nonfarm:						
Average weekly hours (hours)	Aug.	9/7	37.1	37.2[1/]	37.2[1/]	37.1[1/]
Hourly earnings ($)	Aug.	9/7	3.92	3.1	7.3	6.8
Output per manhour (1967=100)[r/]	QII	8/24	115.4	-0.8	--	3.6
Compensation per manhour (1967=100)[r/]	QII	8/24	149.8	5.3	--	7.4
Unit labor cost (1967=100) r/	QII	8/24	129.8	6.2	--	3.6
Manufacturing:						
Average weekly hours (hours)	Aug.	9/7	40.6	40.8[1/]	40.7[1/]	40.6[1/]
Unit labor cost (1967=100)	July	8/27	122.6	-2.9	5.3	3.0
Industrial production (1967=100)	Aug.	9/14	126.2	-2.8	4.5	8.5
Consumer goods	Aug.	9/14	130.3	-18.1	-4.6	4.8
Business equipment	Aug.	9/14	123.9	3.9	8.6	15.6
Defense & space equipment	Aug.	9/14	81.9	1.5	11.0	4.9
Materials	Aug.	9/14	130.9	2.8	8.1	10.2
Consumer prices (1967=100)	July	8/21	132.5	2.7	5.5	5.7
Food	July	8/21	139.9	6.0	10.3	13.5
Commodities except food	July	8/21	123.6	1.0	3.9	3.4
Services 2/	July	8/21	138.4	2.6	4.1	3.7
Wholesale prices (1967=100)	Aug.	9/7	142.8	74.6	28.5	19.0
Industrial commodities	Aug.	9/7	127.4	4.7	5.7	7.5
Farm products & foods & feeds	Aug.	9/7	184.5	232.1	78.3	49.0
				(Not at Annual Rates)		
Plant and equipment expenditure	QIII	9/6	101.9	4.2	--	16.2
plans ($ bil.)	QIV	9/6	104.4	2.4	--	13.5
	1973	9/6	100.2	--	--	13.3
Mfrs. new orders dur. goods ($ bil.)	July	8/30	42.7	-0.7	3.3	28.6
Capital goods industries:	July	8/30	12.6	-7.4	0.1	24.8
Nondefense	July	8/30	11.5	0.6	8.2	28.3
Defense	July	8/30	1.1	-49.8	-44.1	-2.8
Inventories to sales ratio:						
Manufacturing and trade, total	July	9/13	1.41	1.44[1/]	1.42[1/]	1.53[1/]
Manufacturing	July	8/30	1.55	1.58[1/]	1.57[1/]	1.71[1/]
Trade	July	9/13	1.27	1.30[1/]	1.27[1/]	1.34[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	July	8/30	.748	.756[1/]	.796[1/]	.894[1/]
Retail sales, total ($ bil.)	Aug.	9/10	42.7	0.0	2.3	12.5
GAF	Aug.	9/10	11.1	0.0	1.6	11.7
Auto sales, total (mil. units)[3/]	Aug.	9/7	11.3	-4.1	-5.0	0.4
Domestic models	Aug.	9/7	9.8	-2.6	-3.0	1.1
Foreign models	Aug.	9/7	1.6	-12.8	-16.2	-3.6
Housing starts, private (thous.)[3/]	July	8/16	2,176	4.0	2.5	-3.0
Leading indicators (1967=100)	July	8/27	167.5	1.1	4.1	17.3

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Commerce survey taken September 1973.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data this quarter suggest somewhat more rapid expansion in real GNP than the reduced second quarter pace, and a continued sharp run-up in prices. GNP growth for the quarter is now projected to be somewhat larger than in the August Greenbook.

Consumer spending for goods, particularly for nondurables, averaged appreciably higher in July and August than in the second quarter, even after allowance for sharply higher prices. August retail sales, according to the advance Commerce estimate, remained at the high July level, and the average for the two months was 3-1/4 per cent above that of the second quarter. However, total auto sales declined somewhat in August to an annual rate of 11.3 million units, moderately below the average for the first seven months of the year.

Business demands for fixed capital remain strong. The latest Commerce survey, mainly taken in August, indicates a rise of 13 per cent for the year, the same as in the preceding survey. More of the rise is now indicated for the second half of the year, however, as outlays in the second quarter fell short of anticipations--probably due to supply and capacity limitations. The Conference Board survey of large manufacturers showed another substantial increase in new capital appropriations during the second quarter, and unspent appropriations rose further. Moreover, new and unfilled orders for nondefense capital goods extended their rise in July. On the other hand, inventory investment has remained quite moderate and stock/sales ratios have declined further from already low levels.

Capacity utilization rates in major materials industries remain at very advanced levels. A slight decline in industrial production in August resulted from parts shortages, extremely hot weather, and some wildcat strikes which sharply curtailed auto and truck assemblies. In other areas, including output of business equipment, production increased moderately further. Assuming no strike against Chrysler when the contract expires September 14, industrial output is likely to rebound this month.

Nonfarm payroll employment rose sharply in August, following two months of small increases. On balance, there has been a distinct slowing of the earlier expansion, largely concentrated in manufacturing industries. The factory workweek declined somewhat in August, to the June level. The unemployment rate edged up to 4.8 per cent.

The August rise in average hourly earnings was moderate, but figures for June and July have been revised substantially upward. In consequence, the over-all rise in the private nonfarm hourly earnings index in recent months has been somewhat more rapid than earlier this year. In August, the index was 6-1/2 per cent above the level of a year earlier.

Wholesale prices of farm products and processed foods rose by a record 19 per cent from July to August, to a level almost 50 per cent above a year earlier. Part of this increase apparently was of speculative origin; since the August pricing date, prices of some of these commodities have declined appreciably, but they still remain far above mid-July levels. Wholesale prices of industrial commodities rose 0.4

per cent in August, even though the pricing date came only 2 days after the ending of the freeze on August 12. The increases were widespread, and were presumably made by firms not subject to the prenotification requirements of Phase IV. Food prices at retail are likely to be up sharply in August.

Outlook. The staff GNP projection continues to assume growth in the monetary aggregates consistent with the longer-run rates agreed to at the June Committee meeting. Market interest rates in the months ahead are assumed to remain around current advanced levels. The assumptions with respect to Federal expenditures for the fiscal year remain essentially unchanged.

For the second half of this year and the first half of 1974, the staff has raised by an average of about 1/2 percentage point its projection of the annual rate of increase in both nominal and real GNP. An important factor is the additional strength expected in business fixed capital spending, as evidenced in recent figures on manufacturers' appropriations, new orders, and the latest plant and equipment survey.

Real growth is now projected at an annual rate of 4 per cent in the third quarter and 3 per cent in the fourth. The third quarter represents a little more thrust in consumer expenditures as well as in business fixed investment. Partially offsetting the greater strength in these sectors is an apparent decline in defense spending and, on the basis of very limited information, a smaller rise estimated for inventory investment. The somewhat more rapid growth in real GNP now projected for the fourth quarter results primarily from a rebound in defense purchases from the reduced third quarter rate.

The private fixed weight price index is now projected to rise at an annual rate of close to 7 per cent in the third quarter in view of the sharper-than-expected increases in food prices at retail. In the fourth quarter, food prices are not expected to rise as rapidly, but prices of other commodities are likely to bulge as cost increases are passed on, as is permitted by Phase IV.

In the first half of 1974, continued gains in business fixed capital spending should help to sustain inventory investment. Projected growth rates in other major demand categories have been changed relatively little. Housing starts and residential construction activity are still expected to be down sharply, owing in large part to stringency in mortgage markets, and net exports are still expected to rise appreciably further. The projection for the second half of 1974 is basically the same as that of four weeks ago. From late 1973 to late 1974, real GNP is now projected to increase 1.5 per cent, a little more than last time. The unemployment rate is still shown to increase from 4.7 per cent in the fourth quarter of this year to 5.5 per cent in late 1974.

Our price projections for 1974 remain unchanged. Increasing unit labor costs are expected to exert upward pressure on prices throughout the year, but the rise in food prices seems likely to moderate.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate: Real GNP		Per cent change annual rate: Gross private product fixed weighted price index		Unemployment rate	
	8/15/73	9/12/73	8/15/73	9/12/73	8/15/73	9/12/73	8/15/73	9/12/73
1971 1/	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 1/	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973	131.2	133.6	6.0	6.1	5.7	5.8	4.8	4.8
1974	99.6	104.8	1.9	2.3	5.7	5.9	5.2	5.2
1973:I 1/	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II 1/	28.5	29.5	2.6	2.4	7.5	7.9	4.9	4.9
III	30.2	32.6	3.6	4.0	6.4	6.8	4.7	4.7
IV	29.5	31.5	2.6	3.0	7.0	7.0	4.7	4.7
1974:I	25.2	26.0	1.6	2.2	5.5	5.7	4.9	4.9
II	21.3	22.8	1.4	1.8	5.0	5.0	5.1	5.1
III	18.5	18.4	.8	.8	4.6	4.6	5.3	5.3
IV	19.5	19.8	1.1	1.1	4.6	4.6	5.5	5.5
Change: 72-IV to 73-IV	131.5	136.9	4.3	4.5	6.8	7.2	- .6	- .6
73-IV to 74-IV	84.5	87.3	1.2	1.5	4.9	5.0	.8	.8

1/ Actual.

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September 12, 1973

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

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 Projected III	1973 Projected IV
Gross National Product	1155.2	1288.8	1166.5	1199.2	1242.5	1272.0	1304.6	1336.1
Final purchases	1149.1	1282.2	1157.8	1191.0	1237.8	1267.5	1297.2	1326.1
Private	894.1	1004.3	903.1	930.3	969.2	992.2	1018.2	1037.7
Excluding net exports	898.7	1001.7	906.9	933.8	969.2	989.4	1015.8	1032.6
Personal consumption expenditures	726.5	806.4	734.1	752.6	779.4	795.6	817.0	833.5
Durable goods	117.4	132.8	120.2	122.9	132.2	132.8	133.0	133.0
Nondurable goods	299.9	338.1	302.3	310.7	322.2	330.3	345.0	355.0
Services	309.2	335.5	311.6	319.0	325.0	332.6	339.0	345.5
Gross private domestic investment	178.3	202.0	181.5	189.4	194.5	198.2	206.2	209.1
Residential construction	54.0	58.0	54.5	56.9	59.0	59.6	58.8	54.6
Business fixed investment	118.2	137.4	118.3	124.3	130.9	134.1	140.0	144.5
Change in business inventories	6.0	6.6	8.7	8.2	4.6	4.5	7.4	10.0
Nonfarm	5.6	6.3	8.4	7.9	4.4	4.4	7.0	9.5
Net exports of goods and services	-4.6	2.6	-3.8	-3.5	0.0	2.8	2.4	5.1
Exports	73.5	98.6	74.0	79.7	89.7	97.2	100.7	106.6
Imports	78.1	96.0	77.7	83.2	89.7	94.4	98.3	101.5
Gov't. purchases of goods and services	255.0	277.8	254.7	260.7	268.6	275.3	279.0	288.4
Federal	104.4	107.4	102.3	102.7	105.5	107.3	106.5	110.3
Defense	74.4	73.8	71.9	72.4	74.3	74.2	72.2	74.4
Other	30.1	33.6	30.4	30.3	31.2	33.1	34.3	35.9
State & local	150.5	170.4	152.4	158.0	163.0	168.0	172.5	178.1
Gross national product in constant (1958) dollars	790.7	838.7	796.7	812.3	829.3	834.3	842.5	848.8
GNP implicit deflator (1958 = 100)	146.1	153.6	146.4	147.6	149.8	152.5	154.8	157.4
Personal income	939.2	1031.5	943.7	976.1	996.6	1019.0	1043.7	1066.5
Wage and salary disbursements	627.8	689.8	632.7	648.7	666.7	682.6	698.0	712.7
Disposable income	797.0	880.7	800.9	828.7	851.5	869.7	891.2	910.4
Personal saving	49.7	51.0	45.8	54.4	50.0	51.0	50.5	52.6
Saving rate (per cent)	6.2	5.8	5.7	6.6	5.9	5.9	5.7	5.8
Corporate profits before tax	98.0	130.7	98.4	106.1	119.6	130.1	133.5	139.5
Corp. cash flow, net of div. (domestic)	105.0	111.7	91.9	97.7	104.9	110.7	113.6	117.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	264.2	229.6	236.9	253.6	262.5	267.3	273.5
Expenditures	244.6	265.7	237.0	260.3	258.6	262.4	267.3	274.5
Surplus or deficit (-)	-15.9	-1.5	-7.4	-23.4	-5.0	0.1	0.0	-1.0
High employment surplus or deficit (-)	0.4	-1.8	7.3	-10.9	-0.9	0.1	-3.2	-3.1
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	11.7	9.5	19.6	13.9	11.6	11.5	9.9
Total labor force (millions)	89.0	90.9	89.3	89.6	90.0	90.9	91.2	91.6
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.6	86.9	87.2	87.6	88.6	88.9	89.3
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.7	4.7
Nonfarm payroll employment (millions)	72.8	75.4	73.0	73.8	74.6	75.3	75.7	76.1
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.8	19.9
Industrial production (1967 = 100)	115.1	125.6	116.3	120.2	123.1	124.8	126.9	127.8
Capacity utilization, mfg. (per cent)	78.6	83.2	79.4	81.5	82.8	83.3	83.4	83.2
Major materials (per cent)	90.2	94.7	91.0	92.4	93.8	94.4	95.1	95.6
Housing starts, private (millions, A.R.)	2.38	2.12	2.37	2.40	2.40	2.21	2.06	1.80
Sales new autos (millions, A.R.)	10.94	11.55	11.52	11.69	12.23	11.73	11.50	10.75
Domestic models	9.32	9.72	9.91	9.90	10.27	9.87	9.75	9.00
Foreign models	1.61	1.83	1.61	1.79	1.96	1.86	1.75	1.75

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

	1974 Proj.	1974 Projected I	II	III	IV
Gross National Product	1393.6	1362.3	1385.2	1403.6	1423.4
Final purchases	1385.5	1352.3	1376.4	1396.0	1417.2
Private	1080.2	1056.5	1074.4	1087.6	1102.3
Excluding net exports	1071.2	1049.0	1064.8	1078.4	1092.6
Personal consumption expenditures	873.5	850.5	867.5	882.0	894.0
Durable goods	133.0	133.0	133.2	133.2	132.7
Nondurable goods	377.3	365.0	374.6	382.1	387.6
Services	363.2	352.5	359.7	366.7	373.7
Gross private domestic investment	205.9	208.5	206.1	204.0	204.8
Residential construction	46.7	50.5	46.8	44.4	45.1
Business fixed investment	151.0	148.0	150.5	152.0	153.5
Change in business inventories	8.2	10.0	8.8	7.6	6.2
Nonfarm	8.3	10.3	9.2	7.6	5.9
Net exports of goods and services	9.0	7.5	9.6	9.2	9.7
Exports	115.0	111.3	115.1	115.9	117.6
Imports	106.0	130.8	105.5	106.7	107.9
Gov't. purchases of goods and services	305.3	295.8	302.0	308.4	314.9
Federal	114.2	112.6	113.6	114.8	115.8
Defense	75.6	75.1	75.3	75.7	76.3
Other	38.6	37.5	38.3	39.1	39.5
State & local	191.1	183.2	188.4	193.6	199.1
Gross national product in constant (1958) dollars	857.7	853.4	857.2	858.9	861.3
GNP implicit deflator (1958 = 100)	162.5	159.6	161.6	163.4	165.3
Personal income	1117.9	1088.9	1108.2	1128.3	1146.3
Wage and salary disbursement	748.5	727.9	741.9	755.0	769.0
Disposable income	954.2	929.4	945.7	963.2	978.4
Personal saving	55.2	54.0	52.9	55.5	58.3
Saving rate (per cent)	5.8	5.8	5.6	5.8	6.0
Corporate profits before tax	134.4	137.0	136.5	133.0	131.0
Corp. cash flow, net of div. (domestic)	117.7	117.4	118.1	117.4	117.9
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	283.0	279.4	282.5	283.9	286.3
Expenditures	290.3	282.3	286.7	293.6	298.5
Surplus or deficit (-)	-7.3	-2.9	-4.2	-9.7	-12.2
High employment surplus or deficit (-)	7.0	1.6	6.5	8.4	11.6
State and local government surplus or deficit (-), (N.I.A. basis)	6.8	8.9	7.7	6.0	4.6
Total labor force (millions)	92.6	92.0	92.4	92.8	93.2
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.3	89.7	90.1	90.5	90.9
Unemployment rate (per cent)	5.2	4.9	5.1	5.3	5.5
Nonfarm payroll employment (millions)	76.7	75.6	76.8	77.0	77.2
Manufacturing	19.8	19.9	19.8	19.7	19.6
Industrial production (1967 = 100)	129.1	128.5	129.1	129.3	129.5
Capacity utilization, mfg. (per cent)	81.8	82.8	82.2	81.4	80.6
Major materials	94.8	95.3	95.2	94.6	94.2
Housing starts, private (millions, A.R.)	1.61	1.70	1.55	1.55	1.65
Sales new autos (millions, A.R.)	9.91	10.15	10.00	10.00	9.50
Domestic models	8.37	8.50	8.50	8.50	8.00
Foreign models	1.54	1.65	1.50	1.50	1.50

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 Projection III	1973 Projection IV
	Billions of Dollars							
Gross National Product	99.7	133.6	24.1	32.7	43.3	29.5	32.6	31.5
Inventory change	-0.1	0.6	3.2	-0.5	-3.6	-0.1	2.9	2.6
Final purchases	99.7	133.1	20.9	33.2	46.8	29.7	29.7	28.9
Private	79.0	110.2	20.4	27.2	38.9	23.0	26.0	19.5
Net exports	-5.4	7.2	1.9	0.3	3.5	2.8	-0.4	2.7
Excluding net exports	84.4	103.0	18.5	26.9	35.4	20.2	26.4	16.8
Personal consumption expenditures	59.3	79.9	14.9	18.5	26.8	16.2	21.4	16.5
Durable goods	13.8	15.4	5.1	2.7	9.3	0.6	0.2	0.0
Nondurable goods	21.2	38.2	4.4	8.4	11.5	8.1	14.7	10.0
Services	24.3	26.3	5.4	7.4	6.0	7.6	6.4	6.5
Residential structures	11.3	4.0	1.7	2.4	2.1	0.6	-0.8	-4.2
Nonresidential fixed investment	13.8	19.2	2.0	6.0	6.6	3.2	5.9	4.5
Government	20.7	22.8	0.5	6.0	7.9	6.7	3.7	9.4
Federal	6.3	3.0	-4.4	0.4	2.8	1.8	-0.8	3.8
State and local	14.3	19.9	4.9	5.6	5.0	5.0	4.5	5.6
GNP in constant (1958) dollars	45.3	48.0	11.1	15.6	17.0	5.0	8.2	6.3
Final purchases	46.0	47.7	8.7	16.0	20.0	5.0	6.1	4.2
Private	41.4	45.0	10.9	14.3	19.1	4.2	5.8	1.8
	Per Cent Per Year[1]							
Gross National Product	9.4	11.6	8.7	11.7	15.2	9.9	10.7	10.0
Final purchases	9.5	11.6	7.6	12.0	16.7	9.9	9.7	9.2
Private	9.7	12.3	9.6	12.6	17.8	9.8	10.9	7.9
Personal consumption expenditures	8.9	11.0	8.5	10.5	15.0	8.6	11.2	8.3
Durable goods	13.3	13.1	18.9	9.3	33.9	1.8	0.6	0.0
Nondurable goods	7.6	12.7	6.0	11.6	15.6	10.4	19.0	12.1
Services	8.5	8.5	7.2	9.8	7.7	9.7	7.9	7.9
Gross private domestic investment	16.4	13.3	16.5	18.6	11.2	7.8	17.1	5.7
Residential structures	26.5	7.4	13.5	18.8	15.6	4.1	-5.3	-25.7
Business fixed investment	13.2	16.2	7.1	21.9	23.0	10.1	18.8	13.5
Gov't. purchases of goods & services	8.8	8.9	0.8	9.8	12.7	10.4	5.5	14.2
Federal	6.4	2.9	-15.5	1.6	11.4	7.0	-2.9	15.1
Defense	3.9	-0.8	-22.4	2.8	10.9	-0.5	-10.4	12.8
Other	13.6	11.6	4.0	-1.3	12.4	26.7	15.3	20.0
State & local	10.5	13.2	14.0	15.5	13.3	12.8	11.2	13.6
GNP in constant (1958) dollars	6.1	6.1	5.8	8.1	8.7	2.4	4.0	3.0
Final purchases	6.2	6.1	4.5	8.4	10.3	2.4	3.0	2.0
Private	6.9	7.0	7.0	9.1	12.0	2.5	3.5	1.0
GNP implicit deflator	3.2	5.2	2.8	3.3	6.1	7.3	6.4	6.8[2]
Private GNP fixed weighted index[3]	3.2	5.8	3.1	4.1	7.0	7.9	6.8	7.0
Personal income	8.8	9.8	7.8	14.5	8.7	9.3	10.1	9.0
Wage and salary disbursements	9.5	9.9	7.7	10.5	11.6	9.9	9.3	8.7
Disposable income	6.8	10.5	8.1	14.6	11.5	8.8	10.3	8.9
Corporate profits before tax	15.2	33.4	16.1	35.2	61.5	40.0	10.9	19.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	15.5	7.7	13.3	31.3	14.8	7.5	9.6
Expenditures	10.7	8.6	-11.6	45.5	-2.6	6.0	7.7	11.2
Nonfarm payroll employment	3.0	3.6	2.8	4.5	4.5	3.8	2.1	2.1
Manufacturing	2.2	4.6	2.6	7.1	5.4	4.1	0.0	2.0
Industrial production	7.9	9.1	9.2	13.8	10.1	5.8	6.7	2.8
Housing starts, private	14.1	-10.9	16.0	6.6	0.2	-28.6	-24.5	-41.7
Sales new autos	6.8	5.6	49.7	5.9	19.8	-15.4	-7.6	-23.6
Domestic models	7.4	4.3	53.1	-0.5	16.0	-14.9	-4.7	-27.4
Foreign models	3.3	13.9	30.9	52.0	42.3	-18.1	-21.8	0.0

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 6.6 per cent per year.
3/ Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	------------Billions of Dollars------------				
Gross National Product	104.8	26.2	22.9	18.4	19.8
Inventory change	1.6	0.0	-1.2	-1.2	-1.4
Final purchases	103.3	26.2	24.1	19.6	21.2
Private	75.9	18.8	17.9	13.2	14.7
Net exports	6.4	2.4	2.1	-0.4	0.5
Excluding net exports	69.5	16.4	15.8	13.6	14.2
Personal consumption expenditures	67.1	17.0	17.0	14.5	12.0
Durable goods	0.2	0.0	0.2	0.0	-0.5
Nondurable goods	39.2	10.0	9.6	7.5	5.5
Services	27.7	7.0	7.2	7.0	7.0
Residential structures	-11.3	-4.1	-3.7	-2.4	0.7
Nonresidential fixed investment	13.6	3.5	2.5	1.5	1.5
Government	27.5	7.4	6.2	6.4	6.5
Federal	6.8	2.3	1.0	1.2	1.0
State and local	20.7	5.1	5.2	5.2	5.5
GNP in constant (1958) dollars	19.0	4.6	3.8	1.7	2.4
Final purchases	17.4	4.6	4.6	2.3	3.0
Private	11.9	3.4	3.2	0.9	1.6
	-----------Per Cent Per Year 1/------------				
Gross National Product	8.1	8.1	6.9	5.4	5.8
Final purchases	8.1	8.1	7.3	5.8	6.2
Private	7.6	7.4	7.0	5.0	5.5
Personal consumption expenditures	8.3	8.4	8.2	6.9	5.6
Durable goods	0.2	0.0	0.6	0.0	-1.5
Nondurable goods	-0.2	11.8	10.9	8.3	5.9
Services	8.3	8.4	8.4	8.0	7.9
Gross private domestic investment	1.9	-1.1	-4.5	-4.0	1.6
Residential structures	19.5	-26.8	-26.2	-19.0	6.5
Nonresidential fixed investment	9.9	10.0	6.9	4.0	4.0
Gov't. purchases of goods & services	9.9	10.7	8.7	8.8	8.7
Federal	6.3	8.6	3.6	4.3	3.5
Defense	2.4	3.8	1.1	2.1	3.2
Other	14.9	19.1	8.8	8.6	4.2
State and local	12.1	12.0	11.8	11.5	11.9
GNP in constant (1958) dollars	2.3	2.2	1.8	0.8	1.1
Final purchases	2.1	2.2	2.2	1.1	1.4
Private	1.7	2.0	1.9	0.5	0.9
GNP implicit deflator	5.8	5.7 2/	5.0	4.6	4.6
Private GNP fixed weighted index 3/	5.9	5.7	5.0	4.6	4.6
Personal income	8.4	8.7	7.3	7.5	6.5
Wage and salary disbursements	8.5	8.8	7.9	7.3	7.6
Disposable income	8.3	8.6	7.2	7.6	6.5
Corporate profits before tax	2.8	-7.0	-1.5	-9.9	-5.9
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	7.1	8.9	4.5	2.0	3.4
Expenditures	9.3	11.9	6.4	10.0	6.8
Nonfarm payroll employment	1.9	2.1	1.6	1.0	1.0
Manufacturing	0.0	0.0	-2.0	-2.0	-2.0
Industrial production	2.8	2.4	1.8	0.6	0.6
Housing starts, private	-24.1	-20.4	-30.9	0.0	28.4
Sales new autos	-14.2	-20.5	-5.8	0.0	-18.5
Domestic models	13.9	-20.4	0.0	0.0	-21.5
Foreign models	15.8	-21.0	-31.7	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 5.4 per cent annual rate.
3/ Using expenditures in 1967 as weights.

Industrial production. Industrial production was off 0.2 per cent in August because of a 23 per cent drop in auto and truck assemblies. The August index at 126.2 per cent of the 1967 average was 8.5 per cent above a year earlier. Output of consumer durable goods declined because of the reduction in auto production and the rise in business equipment was slowed by the fall in truck output. Production of industrial materials rose only slightly as capacity limitations hampered further expansion.

Auto assemblies for August were scheduled at 800,000 units, an annual rate of 10.3 million units and the same as in July, but parts shortages, extreme heat, and wildcat strikes curtailed actual production to 470,000 cars, an annual rate of 8.0 million units. In early September, auto output rose sharply. Output of household appliances, television sets, and furniture was maintained at record levels in August while production of nondurable consumer goods advanced further.

Output of business equipment excluding trucks, rose 1.8 per cent, but because of the 25 per cent drop in truck assemblies, total business equipment rose only 0.3 per cent. Truck production, as in the case of autos, increased sharply in early September. Output of construction products rose in August, but production of steel, other durable goods materials, and nondurable materials were up only marginally.

Retail sales. Sales in August remained at the high July level and were 3.2 per cent above the second quarter average. August sales at durable stores were up slightly from July, largely as a result of strong sales of furniture and appliances and relatively good sales of other durables and nonconsumer items. Outlays for nondurables were little changed. Compared with the second quarter average, sales were up 2.5 per cent for durables and 3.6 per cent for nondurables; the auto, food, and furniture and appliances groups were all up over 3 per cent. The gain in general merchandise sales from the second quarter, however, was only about 1 per cent. Total retail sales in August were up 12.5 per cent from a year earlier.

RETAIL SALES
(Seasonally adjusted, percentage change from previous quarter)

	1973					
	Q I	Q II	August from Q II average	June	July	August
Total sales	5.7	.1	3.2	-1.3	3.7	.0
Durable	8.2	-2.0	2.5	-4.0	5.0	.5
Auto	7.8	-3.3	3.3	-6.6	9.1	- .6
Furniture and appliance	9.1	.5	3.7	.6	.5	3.3
Nondurable	4.4	1.3	3.6	.0	3.1	- .2
Food	3.7	2.2	4.9	- .8	6.7	-1.3
General merchandise	6.3	.4	1.1	.3	.8	-1.0
Total, less auto and nonconsumption items	4.7	1.3	3.4	.0	2.8	.1
GAF	6.9	- .5	2.3	.6	1.0	.0
Real*	3.8	-2.5	n.a.	-2.0	3.5	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

<u>Unit sales of consumer goods</u>. Sales of new domestic-type autos in August were at a 9.7 million unit annual rate, down a little from both July and the average rate for the first 7 months of 1973. Auto stocks, at a 47 day supply by the end of the month, were off 11 per cent from July due to sharply reduced production.

Foreign car sales in August were at a 1.6 million unit annual rate, 11 per cent below July and a continuation of the downtrend evident since the first quarter. Total new car sales were at a 11.3 million unit rate with imports amounting to 13.8 per cent of the total as compared with 14.3 per cent a year earlier.

August factory sales of major appliances, TVs, and radios are estimated to have risen 4 per cent from July. Appliance sales were up 8 per cent, but all components of the index, except air conditioners, equaled or exceeded their July levels. TV sales declined 3 per cent, however, sales of radios--which represent only a small share of expenditures in the home good total--were up.

UNIT SALES OF SELECTED CONSUMER DURABLES
(Seasonally adjusted)

	1972	1973			Per cent change from:	
	August	June	July	August	Month ago	Year ago
		Annual Rate, million of units				
Auto sales	11.3	11.3	11.8	11.3	-4	0
Domestic	9.7	9.5	10.0	9.7	-3	0
Foreign	1.6	1.8	1.8	1.6	-11	0
		Indexes, 1967=100				
Home goods, factory unit sales	136	151	142	147	4	8
TVs 1/	139	157	145	140	-3	-11
Radios 1/	80	76	77	87	13	9
Major Appliances	139	153	146	158	8	14

1/ Includes foreign made units sold under domestic labels; foreign-label units not included.

Construction and real estate. Seasonally adjusted value of new construction put in place changed little in August at a peak annual rate of $139 billion. Outlays for industrial plants and other private nonresidential construction, which accounted for all of the over-all advance in recent months, apparently continued upward in August to another recored. But outlays for private residential and public construction remained somewhat below their early year highs.

All of the aggregate increase in current dollars since the first quarter has reflected cost increases. As a result, total construction outlays in constant dollars in August remained moderately under the first quarter average. At 150 per cent of the 1967 average, the construction cost index in August was 8 per cent above a year earlier, compared with year-to-year increases of 7 per cent in the previous two years as a whole.

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

	1973			Per cent change in August from	
	QI(r)	QII(r)	August 1/	July 1973	August 1972
Total - current dollars	135.5	136.3	139.2	--	+13
Private	103.3	104.4	107.1	--	+14
Residential	60.5	59.9	60.1	--	+10
Nonresidential	42.8	44.4	47.0	+1	+19
Public	33.2	32.0	32.1	--	+10
State and local	28.0	27.1	27.1	--	+ 8
Federal	5.2	4.9	5.0	--	+22
Total - 1967 dollars	94.0	91.7	92.2	--	+ 4

1/ Data for August 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.
-- = Change of less than 1 per cent.

<u>Anticipated plant and equipment spending</u>. The Commerce September survey of planned spending for new plant and equipment (taken in late July and August) indicates an increase of 13.2 per cent for 1973--the same as in the June survey. Manufacturers now plan an increase of 19.4 per cent, compared to the earlier 18.5 per cent, with most of the additional strength in nondurable goods. Outside of manufacturing, a rise of 9.9 per cent is scheduled--down slightly from the June anticipation.

Second quarter spending was $0.8 billion less than planned--with the shortfall about evenly split between durable goods manufacturing and nonmanufacturing--resulting in an upward adjusted third quarter increase larger than that of the second quarter. The survey indicates that spending in the fourth quarter will increase a bit more slowly than in the third quarter, but that the second quarter shortfall will be made up by the end of the year.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT BY U.S. BUSINESS
(Per cent change from prior year)

			1973					
			McGraw-Hill		Commerce			
	1971	1972	(Nov. 1972)	(May 1973)	(Jan. 1973)	(Mar. 1973)	(June 1973)	(Sept. 1973)
			Anticipated					
All business	1.9	8.9	10.6	19.3	12.9	13.8	13.2	13.2
Manufacturing	-6.1	4.5	13.8	29.2	13.6	18.1	18.5	19.4
Durable goods	-10.4	10.5	15.3	38.1	16.7	19.6	21.7	21.9
Nondurable goods	-1.9	-.8	12.3	20.2	10.6	16.5	15.3	16.9
Nonmanufacturing	7.2	11.5	8.9	13.9	12.5	11.4	10.3	9.9
Transportation	-18.4	16.0	-6.7	8.9	1.6	-2.5	.7	3.0
Electric utilities	20.8	12.6	13.0	16.0	17.0	16.5	14.9	12.4
Communication	6.6	10.4	9.0	14.0	17.6 1/	12.8	10.5	11.3
Commercial and other	8.8	11.2	10.0	14.0	9.8 1/	10.4	7.9	6.7

1/ Confidential, not published separately.

This latest Commerce survey indicates somewhat less strength in business capital spending, especially in manufacturing, than is suggested by other measures. New orders for capital goods have been quite strong and unfilled orders are rising. In addition, newly approved capital appropriations by manufacturing firms rose 11.2 per cent in the second quarter according to the Conference Board. (Historically, appropriations tend to be spent in about two to three quarters.) Backlogs of unspent appropriations also rose sharply in the second quarter and could now support spending at the second quarter rate for another four quarters.

Manufacturers' orders and shipments. New orders for durable goods were off slightly in July (p) following an upward-revised gain of 1.3 per cent in June. Defense capital goods orders were off almost 50 per cent in July reflecting turn of fiscal year volatility. Excluding defense, orders rose by 1.9 per cent. Orders for motor vehicles and construction-type goods rebounded from their June declines, and nondefense capital goods orders were up 0.6 per cent, compared with a 4.5 per cent rise in June.

For the second quarter as a whole, durable goods new orders rose at a 5.7 per cent rate following a 6.3 per cent increase in the first quarter.

Shipments of durable goods rose strongly (4.3 per cent) in July. Backlogs of unfilled orders rose 1.8 per cent, a slowing from the strong advances of recent months.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1973			
	QI from QIV 1972	QII from QI	June from May	July from June (p)
Durable goods total	6.3	5.7	1.3	- .7
Excluding defense	5.9	5.4	.6	1.9
Primary metals	10.2	13.7	- .4	-4.6
Motor vehicles and parts	3.5	-1.8	- .8	8.0
Household durables	4.8	3.6	2.4	2.9
Capital goods industries	6.8	7.2	6.4	-7.4
Nondefense	5.6	6.5	4.5	.6
Defense	14.7	11.2	17.6	-49.8
Construction & other durables	5.8	4.7	-1.9	3.2

<u>Inventories</u>. Book value of manufacturers' inventories rose at an annual rate of $11.4 billion in July (p), less than the June rate of $16.8 billion but about the same as the second quarter average. Wholesale trade inventories rose at a $4.6 billion rate in July--up from the downward revised $3.6 billion second quarter rate. By stage of fabrication in manufacturing, materials stocks rose at an accelerated $9.5 billion annual rate, while work in process rose moderately and finished goods stocks declined. Despite these large additions to book value, it appears that manufacturers may not have increased the physical volume of their stocks either in July or in the second quarter. Although the data indicate increases in manufacturers' holdings of materials--which appears consistent with recent purchasing agents' reports--there have been continued declines in finished goods. Since the price freeze was in effect for many products during July the rapid rate of shipments and the drawing-down of finished goods stocks may reflect some buying in anticipation of higher prices in subsequent months.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, $ billions)

	1973			
	Q I	Q II (Rev.)	June (Rev.)	July (Prel.)
Manufacturing and trade	21.5	22.9	28.3	n.a.
Manufacturing total	9.8	11.4	16.8	11.4
Durable	6.6	7.7	11.2	6.1
Nondurable	3.2	3.7	5.6	5.2
Trade, total	11.7	11.5	11.5	n.a.
Wholesale	6.1	3.6	1.9	4.6
Retail	5.6	7.9	9.5	n.a.

NOTE: Detail may not add to totals because of rounding.

n.a. - Not available.

Manufacturers' shipments increased by a substantial 2.8 per cent in July and the inventory-shipments ratio declined from 1.58 in June to 1.55 in July, the lowest level since 1951. The ratio of inventories to unfilled orders declined further, reaching the lowest level since October 1969. The wholesale trade inventory-shipments ratio declined slightly to 1.14 in July, continuing at a low level.

INVENTORY RATIOS

	1972		1973	
	June	July	June (Rev.)	July (Prel.)
Inventories to sales:				
Manufacturing and trade	1.53	1.53	1.44	n.a.
Manufacturing, total	1.70	1.71	1.58	1.55
Durable	2.05	2.06	1.88	1.82
Nondurable	1.30	1.31	1.21	1.21
Trade, total	1.36	1.34	1.30	n.a.
Wholesale	1.22	1.23	1.16	1.14
Retail	1.45	1.42	1.41	n.a.
Inventories to unfilled orders:				
Durable manufacturing	.896	.894	.756	.747

n.a. - Not available.

Cyclical indicators. The Census composite index of leading indicators rose 1.1 per cent in July (p), following increases of 1.0 per cent in June and 1.9 per cent in May. The coincident and lagging indexes also rose.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	1973			
	April	May	June	July (p)
12 Leading (trend adjusted)	- .9	1.9	1.0	1.1
12 Leading, prior to trend adjustment	-1.3	1.5	.6	.8
5 Coincident	.7	.9	.7	.8
5 Coincident, deflated	.1	.4	.3	.7
6 Lagging	2.4	1.7	1.6	1.4

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

Labor market. Nonfarm payroll employment rose by nearly 300,000 in August on the strength of large increases in service-type industries. As in other recent months, employment rose only slightly in goods producing industries. Total employment and the labor force were down slightly and the unemployment rate, at 4.8 per cent, was up 0.1 per cent from July.

Since May, growth of both labor force and employment has been considerably slower than earlier. Payroll employment increased at a 1.9 million annual rate from May to August, a more sustainable rate than the 3.1 million rate in the preceeding nine months. The slowing was mainly in manufacturing, where job gains slipped to an annual rate of 115,000 from an extraordinary rate of 1.1 million. In August, manufacturing employment was little changed and the factory workweek fell 0.2 hour, to 40.6 hours.

CHANGES IN LABOR FORCE AND EMPLOYMENT
(Seasonally adjusted; in thousands)

	August 1971-August 1972	August 1972-May 1973	May 1973-August 1973
	Annual rate		
Civilian labor force	2,570	1,952	984
Total employment	2,797	2,617	1,640
Nonfarm payroll employment	2,487	3,073	1,944
Government	459	425	344
Private	2,028	2,648	1,600
Manufacturing	565	1,076	116
Nonmanufacturing	1,463	1,572	1,484

Unemployment. As with the total figure, unemployment was little changed for major groups, except for Negroes whose rate dropped back to the June level. Jobless rates continue significantly below a year earlier for most groups and in some instances are down appreciably from earlier this year. Over the past year, the number of unemployed has decreased by 660,000 with declines in the number of job losers accounting for the bulk of the reduction--a typical cyclical pattern.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972	1973		
	August	February	July	August
Total	5.6	5.1	4.7	4.8
Men 20 years and over	3.9	3.4	3.0	3.1
Women 20 years and over	5.5	4.9	4.9	4.9
Teenagers	16.7	15.8	14.4	14.3
Household heads	3.3	3.0	2.7	2.8
White	5.1	4.6	4.1	4.2
Negro and other races	9.7	9.0	9.3	8.7
White-collar	3.5	3.0	2.9	3.0
Blue-collar	6.4	5.7	5.3	5.2
Service	6.3	6.1	5.6	5.5

Earnings and collective bargaining. The index of hourly earnings for production workers in private nonfarm activities rose at a 4.7 per cent annual rate in August, following upward revised annual rates of increase of 10 per cent in June and 8 per cent in July. The index, which moves unevenly on a monthly basis, was 6.5 per cent above a year earlier and now appears to be rising at a more rapid rate than earlier this year.

Consumer prices. The rise in consumer prices slowed from a seasonally adjusted annual rate of 7 per cent in June to only 2.8 per cent in July, largely because of reimposition of price ceilings June 13. Because of reporting lags, the July index includes some price changes which actually occurred before the freeze. Annual rates of rise dropped to about 6 per cent for food, 1 per cent for other commodities and 2.6 per cent for services.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative importance Dec. 1972	Phase II Nov. 1971 to Jan. 1973	Phase III January 1973 to June	Phase III June 1973 to July
		(14 months)	(5 months)	(1 month)
All items	100.0	3.6	8.3	2.8
Food	22.5	6.5	20.3	6.2
Commodities less food	40.1	2.4	5.2	1.0
Services 1/	37.4	3.5	4.3	2.6
Addendum:				
All items less mortgage costs 2/	96.3	3.7	8.7	4.7
Services less home finance 1/ 2/ 3/	30.9	3.3	4.6	3.6
Commodities less food, used cars, home purchase 3/	31.8	2.1	6.1	1.0

1/ Not seasonally adjusted.
2/ Home financial 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.

Despite the freeze, which, unlike the previous one, covered raw foods after the farm level, prices of most foods did rise. The increases were less than seasonal for meats and eggs but particularly large for fresh vegetables.

The August index for food will reflect much of the enormous advance registered at wholesale following authorization on July 18 of a pass-through of raw agricultural product cost increases (except for beef).

More generally, the bulge in price increases following the ending of the freeze for most items around mid-August when Phase IV went into effect should be most evident in the consumer price index in September and the fourth quarter. Prenotification regulations will delay the implementation of price increases for large companies and the index will continue to reflect price change with some lags. Although the regulations generally permit only a dollar-for-dollar pass-through of costs, increases are expected to be large, particularly for apparel. However, these may be offset in part by some rollbacks in gasoline prices and by the BLS adjustment for quality change on new cars which may equal or exceed the authorized price increase.

Recent advances in mortgage rates, which are reflected in the CPI with a lag, will also boost the index in coming months through their effect on the homeownership costs component. During the last period of rising mortgage rates, there were quarters when mortgage costs contributed anywhere from 1/2 to 1 percentage point (annual rate) to the increase in the CPI.

Wholesale prices. Wholesale prices rose between July and August by 6.2 per cent, seasonally adjusted, to a level 19 per cent above a year earlier. This was the largest monthly increase since October 1946 and resulted mainly from a surge in prices of farm and food products, although prices of industrial commodities also rose further.

Price increases for farm and food products were widespread and the index for this group rose 19.3 per cent, seasonally adjusted, as huge increases were posted for grains, livestock, meat, poultry, manufactured animal feeds, soybeans, and eggs. Consumer foods rose almost 11 per cent, reflecting large advances for almost all major food groups.

PRICES OF CONSUMER FINISHED FOODS
(Percentage increases)

	July 1973 to August 1973
Meats	15.8
Poultry	35.0
Eggs	35.1
Cereal and bakery products	8.5
Dairy products	3.3
Animal fats and oils	88.6
Vegetable oil end products	17.8

Prices of industrial commodities increased 0.4 per cent from July to August, although the pricing date was only 2 days after the August 12 termination of the freeze. Increases for metals and metal products, paper products, textile products and apparel, machinery and equipment, lumber and wood products, and furniture and appliances were of major influence on the rise.

WHOLESALE PRICES
(Average monthly percentage change, seasonally adjusted)

	1972		1973		
				Freeze	
	Dec. 1971 to June 1972	June to Dec.1972	Jan. to July	June to July	July to August
All commodities	.4	.7	1.3	-1.4	6.2
Farm products	.5	1.8	2.2	-4.6	19.3
Industrial commodities	.3	.2	1.0	.1	.4
Crude materials	.8	1.0	1.9	1.2	1.2
Intermediate materials	.4	.3	1.0	- .1	.7
Finished goods	.2	.1	.8	- .1	.3
Producer	.3	.1	.5	.1	.6
Consumer	.2	.2	.9	- .2	.2
Consumer finished foods	.3	1.0	1.5	- .8	10.8

Note: Farm products include farm products and processed foods and feeds.

Since August 14, prices of farm products have shown a sharp decline, particularly for grains, eggs, soybeans, livestock, and poultry. An exception has been raw cotton which is about 25 per cent higher than at mid-August. Even though they have dropped markedly, farm product prices remain substantially above mid-July levels.

The Cost-of-Living Council recently gave approval to automobile manufacturers to increase prices by \$51-\$74 a vehicle on 1974-model cars and trucks. These increases, less than requested, are to cover costs of government-mandated safety and pollution-control equipment. One automobile manufacturer was also permitted to raise prices to cover the addition of some equipment, now standard, which was formerly optional at additional cost; this increase together with the increase to cover safety and pollution-control devices resulted in a total increase of $136 a unit or about 3 per cent.

Steel companies were granted approval this week to increase steel sheet prices about 5 per cent, with no more than one-half of the increase to be effective on October 1 and the remainder on January 1. The Council announced that it will not consider requests for price increases on other steel products before December 1.

In another action, the Cost-of-Living Council suspended requests submitted by manufacturers for price increases for tires, paper products, and soap and detergents pending public hearings on the manufacturers' requests.

Agriculture. Prices received by farmers increased 20 per cent during the month ending August 15, but about half this rise has since been erased by a general price decline. Both livestock and grain prices shared in the sharp rise and decline even though underlying supply conditions--animal slaughter and crop prospects--continue about the same.

Livestock slaughter was low throughout August and early September, resulting in red meat production about 7 per cent below the July level, and 17 per cent below August last year. A small increase in hog slaughter was less than the usual seasonal rise. Shopper resistance to high prices, consumption of stocks built up earlier in expectation of high prices, and hot weather have caused meat supplies to accumulate in marketing channels and were major factors pushing down prices of farm products.

Estimates of corn, spring wheat, soybean, and cotton production have each been raised between 2 and 4 per cent based on September 1 crop conditions. Slackening export commitments had already caused some decline in grain markets and further weakness may result from this latest report. Soybean export restrictions have been lifted and previous contracts can be fully met.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA (Dollar amounts in billions) August Master

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		August	33.9	4.9	7.5	8.6
Reserves available (RPD's)		August	32.0	8.0	14.4	11.5
Money supply						
M1		August	263.9	-1.8	5.2	6.2
M2		August	550.5	6.4	7.3	8.3
M3		August	866.2	3.9	6.7	9.4
Time and savings deposits (Less CDs)		August	286.6	14.0	9.3	10.3
CDs (dollar change in billions)		August	67 0	2.5	5.3	27.9
Savings flows (S&Ls + MSBs)		August	315.7	-0.4	5.6	11.5
Bank credit (end of month)		August	615.7	20.2	11.7	15.8
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	9/5/73	10.79	0.22	2.36	5.90
Treasury bill (90 day)	"	9/5/73	8.69	0.41	1.66	4.07
Commercial paper (90-119 day)	"	9/5/73	10.50	0.65	2.82	5.50
New utility issue Aaa	"	9/7/73	7.94	-0.37	0.39	0.56
Municipal bonds (Bond Buyer)	1 day	9/6/73	5.18	-0.41	0.05	-0.21
FNMA auction yield (FHA/VA)		9/4/73	9.27	0.32	1.18	1.61
Dividends/price ratio (Common stocks)	wk. endg.	8/29/73	3.17	0.23	0.15	0.36
NYSE index (12/31/65=50)	end of day	9/10/73	55.61	0.23	-0.53	-4.51

Credit demands	Period	Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	August	4.2	2.5	26.8	8.7
Consumer instalment credit outstanding	July	2.0	1.1	13.0	8.1
Mortgage debt outst. (major holders)	June	6.4	5.7	28.2	25.2
Corporate bonds (public offerings)	June	1.3	1.3	6.2	10.0
Municipal long-term bonds (gross offerings)	June	2.1	2.3	11.7	12.3
Federally sponsored Agcy. (net borrowing)	September	2.2	0.7	12.8	2.5
U.S. Treasury (net cash borrowing)	September	0.0	0.4	0.6	2.8
Total of above credits		18.2	14.0	99.3	69.6

e - Estimated

DOMESTIC FINANCIAL SITUATION

The rally in bond markets which began in early August continued through the first week of September, reducing coupon yields 50 to 100 basis points below their highs in early August. Several factors combined to initiate and then extend this rally. Most important was the growing belief on the part of market participants--encouraged by weakness in the monetary aggregates and the international strength of the dollar--that monetary policy would not tighten further and that perhaps the peak in monetary restraint had passed. The effects of this shift in market attitude were reinforced by the strong technical position of securities markets, light new corporate bond offerings, and shifts of funds by individuals from thrift accounts to market securities.

Shortly after the last Committee meeting, the Treasury bill market began to share the bond market's more bullish atmosphere, and rates on these issues declined as much as 20 to 35 basis points. But other short-term rates remained stable or edged higher during this period. Most recently, indications of continued monetary restraint--including some further rise in the Federal funds rate and the announcement of higher marginal reserve requirements on CD's--tended to force some reconsideration by market participants of the underlying outlook for interest rates. As a result, bill rates rose to levels above those prevailing at the time of the mid-August meeting and in the first two days of this week yields in the Treasury coupon market generally advanced about 10-25 basis points from their lows.

In August, outflows from S&L's accelerated to an estimated $1.5 billion (confidential), but disintermediation at the MSB's appears to have moderated somewhat from the July pace. FHL Bank net advances to S&L's, at $1.2 billion, were as large as in July, even though FHLBB policy on advances tightened further. In this environment, new mortgage commitments are reported to have declined further in August, with residential mortgage rates rising--in those states not restricted by usury ceilings--by over 50 basis points.

Both thrift institutions and banks issued a significant volume of the new four year certificates in July and August. At commercial banks, passbook savings declined and inflows of consumer time deposits other than the four year certificates moderated significantly over this two month period, reflecting switches to the new deposit form. While little of the bank gain appears to have been at the expense of thrift institutions--with most depository institutions offering about the same rates on four year certificates--bank inflows of total consumer-type deposits accelerated in August as households realigned their financial asset holdings in response to the higher level of bank offering rates.

Business loans expanded further in the month of August. At weekly reporting banks such loans rose sharply early in the month and then dropped back in the last two weeks at money market centers. Discussion with representative commercial banks failed to provide a clear-cut explanation for the late August weakness, although there was some indication that firmer lending policies and higher bank interest rates were both playing a role.

Outlook. Credit demand pressures over the months ahead are still expected to focus more on short- and intermediate-term markets than on long-term markets. Underwriters continue to report very light forward calendars in the long-term corporate bond market and no pick-up is expected in the tax-exempt market. If there are continuing indications that monetary policy is moving in a more restrictive direction, however, long-term yields could adjust upward as lenders become more reluctant to commit funds.

The short- and intermediate-term market areas are likely to have to absorb about $10 to $12 billion of new Treasury and agency offerings between now and year-end. This volume would be somewhat less than in similar periods of recent years, but it may be larger than some market participants now expect.

Credit demands from the Treasury and Federal agencies probably will be accompanied by fairly sizable demand for money market funds by banks and corporations. The forward thrust of business expansion, in conjunction with a continued preference for short- rather than long-term financing, may well induce corporations to continue borrowing from banks and to sell liquid assets or step up commercial paper offerings as banks enforce tighter lending standards. Banks in turn will still likely press CD offerings on the market, although the amount will be restrained in some degree by the recent increase in marginal reserve requirements.

Outflows of funds from nonbank thrift institutions are expected to slacken in the months ahead on the assumption that a large part of interest-sensitive funds have already shifted. Unless short- and intermediate-term interest rates drop significantly from current levels, however, these institutions--and in consequence the mortgage markets-are likely to remain under pressure.

Monetary aggregates. There was considerable diversity in the movements of the major monetary aggregates in August. M_1, after showing a slower rise in July, is estimated to have declined on average over the month at almost a 2 per cent annual rate. With growth in consumer-type time deposits accelerating sharply, M_2 expanded more rapidly than in July, but outflows at the nonbank thrift institutions were so large in August that M_3 growth decelerated further.

A large part of the July-August growth in commercial bank time and savings deposits other than CD's was accounted for by increases in the new four year time deposits exempt from Regulation Q ceilings. Based on estimates from the July sample survey of IPC time and savings deposit rates, and from a special smaller survey conducted in August, it is estimated that all insured banks issued $2.7 billion of new four year deposits in July and an even larger amount in August (single day end of month basis, not seasonally adjusted). Most banks at the end of July were offering these deposits in the 7 to 7-1/2 per cent range, about the same as competing S&L's, thus making it unlikely that much of the bank gain was at the expense of thrift institutions.[1/] But, banks--in contrast to the thrift institutions--apparently continued to enjoy significant net inflows of total consumer time deposits over the period, though the inflows seemed to be moderating in late August and early September.

1/ See the Supplement for a more detailed discussion of the new bank time deposit rate structure as of the end of July.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972 QIV	1973 QI	1973 QII	1973 June	1973 July	1973 Aug. p
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	8.6	1.7	10.3	12.4	5.0	- 1.8
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	10.2	5.7	9.5	10.4	5.1	6.4
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	11.5	8.6	9.4	10.4	5.6	3.9
Adjusted bank credit proxy	12.1	15.0	12.2	11.1	8.8	16.4
Time and savings deposits at commercial banks						
a. Total	14.4	23.1	16.0	8.1	12.6	20.4
b. Other than large CD's	11.6	9.5	8.7	8.1	5.5	14.0
			Billions of dollars 1/			
Memorandum:						
a. U. S. Government demand deposits	.5	.3	-.8	.5	-1.7	.8
b. Negotiable CD's	1.1	3.9	2.4	.3	2.5	2.5
c. Nondeposit sources of funds	.1	.2	.2	.2	.9	.6

p/ Preliminary and partially estimated.
1/ Monthly changes: changes in average level for the month. Quarterly changes: average monthly change over the quarter from last-month month-in-quarter to last month-in-quarter.

Outstanding negotiable CD's also rose rapidly on average in August with offering rates reaching 10.75 to 11.0 per cent by the end of the month. The rate of inflow, however, slowed later in the month and in early September, as some banks become less aggressive issuers when loan demands moderated (see below). Growth in use of funds from nondeposit sources also slowed late in August, when the increase was $600 million compared with $900 million in July.

With total time deposits increasing at a 20 per cent rate and with both nondeposit funds and Treasury deposits rising, the adjusted credit proxy accelerated to a 16.5 per cent annual rate of growth in August--somewhat above the rate in the first half of the year.

Bank credit. The rate of growth of loans and investments at all commercial banks (last Wednesday-of-the month series) also picked up in August, to around a 20 per cent annual rate. For the second consecutive month all of the increase reflected loan expansion, as liquidation of Treasury issues more than offset purchases of other securities. Since the beginning of the year, banks have reduced their total security holdings--particularly short-term issues--by over $2 billion. The general reduction in liquid asset holdings accompanied by continued increases in deposit liabilities carried the liquidity ratio of large banks in August to the lowest level since mid-1971.

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

	1972	1973			
	QIV	QI	QII	July	Aug.
Total loans and investments 2/	16.4 (17.0)	18.4	9.8	10.8 (10.2)	20.2 (19.2)
U. S. Treasury securities	2.6	-11.5	1.3	-41.4	-42.9
Other securities	12.0	1.0	2.7	15.3	11.0
Total loans 2/	20.3 (21.2)	28.6	13.0	17.1 (16.2)	31.5 (30.1)
Business loans 2/	15.5	39.1	20.3	19.9	32.8
Real estate loans	19.2	15.9	15.7	12.5	17.9
Consumer loans	19.0	17.6	14.2	14.2	14.0

1/ Last-Wednesday-of-month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
r/ Revised.
NOTE: Data in parentheses are adjusted to exclude System matched sale-purchase transactions.

All categories of loans, seasonally adjusted, were strong in August. Bank loans to finance companies, nonbank thrift institutions, mortgage companies and security dealers all rose by relatively large amounts. Consumer loans increased near the average pace of 1972 and the first half of 1973, and growth in real estate loans has been maintained near the strong pace established during the 1971-72 period of expansive monetary policy. To a significant extent the strength in real estate loans reflects take-downs of previous commitments, but there have been reports that, when not constrained by usury ceilings, many banks--with their fund inflows strong and mortgage yields high--have sought to maintain their credit flows to the mortgage market.

Business loans increased particularly rapidly in August, with seasonally adjusted growth at an annual rate in excess of 30 per cent, but this rate of growth appears to be biased upward--perhaps significantly--by a changing late summer seasonal pattern. Moreover, in the last two weeks of the month these loans declined sharply, before adjustment--particularly in New York and Chicago.

Contacts with representative large banks in Boston, New York, and Chicago regarding the weakness of business loans after mid-month produced a somewhat mixed picture regarding possible explanations--as well as a few expressions of puzzlement as to the cause of the weakness. Some banks felt that the weakness was temporary, others felt that loan demand was moderating, possibly in response to higher-interest rates, and still others saw the decline as a lagged reaction to firmer lending policies they had established earlier. While some bankers made reference to the increasing relative attractiveness of rates in the commercial paper market, there is no indication of a shift by nonfinancial corporations to that market even though finance companies did increase their commercial paper borrowing significantly in August. Although not given as an explanation by any respondent, loans to foreign businesses in August were weak at the large banks, possibly reflecting both the strengthening of the dollar and the sharp rise in U. S. interest rates.

Nonbank financial institutions. Estimates based on sample data, unadjusted for seasonal, indicate that August was the second consecutive month in which savings and loan associations and mutual savings banks experienced substantial net deposit outflows. At S&L's, the pattern of outflows accelerated as the month progressed; confidential FHLBB estimates show deposit outflows of $300 million in the first 10 days of August, $500 million in the second 10 days, and $700 million during the last part of the month. This estimated $1.5 billion outflow translates into a 3.0 per cent seasonally adjusted rate of attrition for the whole month. Moreover, August marked the first time on record that S&L's have experienced a net deposit outflow during a non-reinvestment period month.

On the basis of sample data from New York mutual savings banks, it is estimated that there was no net deposit growth, seasonally adjusted, at MSB's during August. New York State savings banks had a net deposit loss of over $300 million during August--less than the $472 million loss in July--with a heavy concentration of deposit withdrawals reportedly around the date of the recent Treasury financing on August 24.

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

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
1973 - June	8.8	13.2	11.8
July p/	-2.5	2.9	1.3
August e/	0	-3.0	-2.0

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

S&L's continued to borrow heavily from the Federal Home Loan Banks during August. Although the net increase in advances began to taper off during the middle part of the month, volume rose again thereafter, resulting in a net increase of about $1.2 billion for August as a whole.

Although firm data are not yet available for August, preliminary reports indicate that both S&L's and MSB's continued to draw down liquid assets and to reduce mortgage commitments. At the same time, reflecting the still heavy volume of mortgage commitments outstanding, total mortgage portfolios of these institutions apparently expanded somewhat further.

Consumer credit. The net increase in total consumer credit outstanding during July amounted to $26.2 billion, seasonally adjusted annual rate, compared with $24.8 billion in June and the peak of $29.6 billion in December 1972. Both extensions and repayments of instalment debt rose sharply, and instalment credit outstanding rose at a near-record pace. Gains in automobile and nonautomotive consumer goods credit reflected the advanced level of retail sales in July; personal loans were bolstered by a change in the New York State small loan law which increased the maximum loan size to $2,500 from $1,400.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Personal loans	Home repair and modernization
1972 - QI	13.2	3.9	4.1	4.6	.6
QII	14.8	5.0	4.8	4.3	.7
QIII	16.1	5.9	6.0	3.3	.9
QIV	19.5	7.4	7.3	4.0	.9
1973 - QI	24.0	10.0	7.4	5.4	1.1
QII	20.0	7.4	6.9	4.7	1.0
July	23.6	7.2	9.1	5.9	1.5

Interest rates on most types of consumer credit at commercial banks and finance companies rose slightly from June to July. Rates on new car loans edged up 2 basis points at banks and 8 basis points at finance companies, extending the modest uptrend that has been evident since mid-1972. Commercial bank rates for new car loans have risen 14 basis points from their low in May 1972; finance company rates are up 18 basis points from their July 1972 low.

Commercial paper outstanding. Total commercial paper outstanding showed a record increase of $2.1 billion during August on a seasonally adjusted basis. Nonbank-related directly placed issuers reported a record increase in their paper, and bank-related paper is estimated to have increased a sizable $600 million.

The rapid expansion of directly placed nonbank paper apparently reflected both a continuing large need for funds to finance expanding portfolios of receivables and a leveling off in the advance of interest rates. However, dealer placed nonbank paper declined $500 million in August. Dealers report that only a few issuers have returned to the commercial paper market even though the rate advantage in borrowing at banks has been eliminated for some borrowers as a result of the recent rapid rise in the prime rate.

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, in billions of dollars 1/)

	Net change in outstandings				Estimated amount outstanding
	QI	QII	July	Aug.(e)	Aug. 31, 1973
Total commercial paper outstanding	-1.5	2.2	-.3	2.1	37.9
Bank-related	.8	.8	.2	.6	5.1
Nonbank-related	-2.4	1.4	-.5	1.5	32.8
Dealer placed	-3.9	.6	*	-.5	8.0
Directly placed	1.6	.8	-.5	2.0	24.8

1/ Seasonally adjusted figures are not available for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.

NOTE: Components may not add to totals due to rounding.

<u>Long-term security markets</u>. On balance, yields on long-term securities have declined substantially since early August. In the corporate market, the new issue Aaa utility yield showed a net decline of nearly 60 basis points over the period, while the corresponding recently offered yield dropped 30 basis points. In the tax exempt market, yields on long-term securities fell about 40 basis points. The rally in long-term markets appears to have been prompted initially by dealer covering of short positions, but was sustained by increased demands for securities by institutional investors supplemented by some individual interest at a time of moderating new issue volume. Some of this demand is due to widening expectations that long-term interest rates have peaked. Since the Board's change in marginal reserve requirements on large CD's, prices in the secondary market have declined, and one new issue that was priced aggressively did not sell well.

New issues of corporate public bonds in August are estimated to have amounted to about $750 million, the lowest monthly volume since August 1969. While August is normally a month of relatively light volume the calendar failed to build up to expectations as the month progressed, and the decline from July was more than seasonal. In September, the projected volume of public bonds--$800 million--is only a little higher than August even with a $200 million negotiated issue tentatively scheduled near month end. Although underwriters continue to report few new sizable bond issues coming into the pipeline, the October volume is projected to rise to $1.2 billion, reflecting mainly a bunching of utility issues already scheduled.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	U.S. Government bonds (10-year constant maturity)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6/58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	5.00 (1/19)	6.42 (1/3)
Aug. 3	8.31	8.28	5.59	7.48
10	8.52	8.32	5.58	7.54
17	8.30	8.16	5.47	7.41
24	8.29	8.21	5.44	7.33
31	--*	8.24	5.34	7.26
Sept. 7	7.94p	8.02p	5.18	7.16p

1/ FRB series.
2/ Bond Buyer.
* No observations available for new issues rated A or higher that meet the criteria for inclusion in the series.
p/ Preliminary.

Funds raised by Corporations through sales of stock are also projected to increase from the unusually low volume in August. The reduced August volume was heavily influenced by postponements of scheduled utility issues due to declining stock prices. Stock prices fell throughout most of August, reached new lows for the year and recovered slightly at the end of the month. Trading volume was moderate. Many of the postponed offerings have been rescheduled for September and October, and account for the rise in projected stock issues for these months. While poor market conditions could cause a significant volume of further postponements, the utilities seem to be running out of financial flexibility and will find it increasingly difficult to delay scheduled offerings.

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

	1973				
	1st half	QIII e/	Aug. e/	Sept. f/	Oct. f/
Corporate securities - Total	2,772	2,010	1,680	2,300	3,000
Public bonds	1,039	793	730	800	1,200
Privately placed bonds	690	667	600	800	700
Stock	1,041	550	350	700	1,100
State and local government securities	1,955	1,733	1,450	1,800	1,800

e/ Estimated.
f/ Forecast.

The volume of tax exempt bond offerings in August amounted to about $1.5 billion, a somewhat larger than seasonal decline from July. In both September and October volume is projected at $1.8 billion, about in line with earlier months this year.

State and local governments remain in a strong financial position and their financing in long-term markets continues relatively moderate. The volume of new tax exempt issues is being sustained by an increasing number of industrial pollution control bond issues, the proceeds of which are ultimately channelled to the corporate sector.

Short-term markets. Since the last FOMC meeting, short-term interest rates have increased on balance, with most market rates rising about 10 to 25 basis points and bank prime rates, continuing to move into closer alignment with the general structure of short-term rates, advancing 50 basis points to 9.75 per cent.

The extended up-trend in short-term interest rates was interrupted temporarily following the August FOMC meeting by a market rally which was centered primarily in the Treasury bill sector of the market but which also developed with a lag in other market sectors. This rally appeared to be sparked by a shift in market participants' interest rate outlook, as they apparently concluded, after noting the weakness displayed by incoming data on the money supply, that the FOMC had decided at its August meeting to forego a further tightening of monetary policy. The downward rate pressures generated by this shift in attitude were reinforced by a low level of dealer bill inventories, good news regarding the international position of the dollar, and the persistence of demands from individuals for bills and other market securities. (Non-competitive bids in recent weekly bill auctions have been running $200-300 million higher than in the early part of this year.)

The money market displayed a somewhat firmer tone in the last two weeks of August, however, as reflected by a further increase in the federal funds rate of about 25 basis points to a level around 10.75 per cent. Then, in response to the System's announcement on September 7 of a further 3 percentage point increase in marginal reserve requirements for CD's, short-term interest rates began moving significantly higher, particularly Treasury bill rates.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily Rates				Change
	Aug. 21	Aug. 28	Sept. 4	Sept. 11	Aug. 21-Sept. 11
Treasury bills					
3-months	8.92	8.72	8.78	9.04	+.12
6-months	8.77	8.63	8.72	8.94	+.17
1-year	8.27	8.24	8.20	8.43	+.16
Commercial paper					
90-119 days	10.25	10.50	10.50	10.50	+.25
4-6 months	10.25	10.50	10.38	10.50	+.25
Large negot, CD's 1/					
3-months	10.75	11.05	10.95	10.95	+.25
6-months	10.00	11.00	10.13	10.13	+.13
Federal agencies					
1-year	9.36	9.24	9.12	8.74 2/	-.57
Bank prime rate					
(most prevalent)	9.25	9.75	9.75	9.75	+.50
	Statement week ended				Change--week ending Aug. 22 to week ending Sept. 12
	Aug. 22	Aug. 29	Sept. 5	Sept. 12 3/	
Federal funds					
(daily average)	10.52	10.79	10.79	10.86	+.34

1/ Highest quoted new issues.
2/ Quotation for September 7.
3/ Average for first 6 days of the week.

<u>Treasury coupon and federal agency issues</u>. Yields in all maturity sectors of the Treasury coupon market dropped significantly further following the August meeting of the FOMC, but most recently have backed up to some extent. These yield movements mainly reflect the swings in the market's interest rate outlook discussed in the preceding section. Despite the recent increases, yields generally are down about 20 to 30 basis points from levels prevailing at the time of the

August meeting and about 50 to 100 basis points from their peak levels of the year reached in early August.

INTEREST RATES ON U.S. TREASURY NOTES AND BONDS
(Constant maturity, in per cent)

	Daily rates				
	Aug 21	Aug 28	Sept 4	Sept 11	Aug. 21-Sept 11
Maturity of Note or Bond					
1-year	8.76	8.54	8.46	8.51	-.25
5-years	7.47	7.31	7.23	7.33	-.14
10-years	7.36	7.29	7.21	7.19	-.17
20-years	7.56	7.47	7.31	7.32	-.24

The continued bullish outlook prevailing in the Treasury coupon market in late August provided a highly receptive setting for the Treasury's auction of a 25-month note on August 24. The Treasury set the coupon on this issue at 8-3/8 per cent in an attempt to assume comfortable coverage. However, interest in the note was quite strong, and the average yield set in the auction was 7.94 per cent. Demands by small savers--noncompetitive tenders amounted to $500 million--provided a major source of strength for this issue.

It now appears that the Treasury may have to raise around $4 billion of new cash between now and year-end, a somewhat larger volume than had been expected a few weeks ago. Possibly about half this amount will be offered in early October.

Total borrowing by Federal Agencies through the end of the year--including financial asset sales as well as new offerings of the Federally sponsored and budget agencies may amount to about $6.0 billion. About $2.0 billion of Agency financing already accomplished in September is not included in the $6.0 billion figure. Despite this large prospective borrowing by Federal Agencies, the combined Agency-Treasury need in prospect over the remainder of the calendar year is still smaller than comparable totals recorded in similar periods of other recent years.

Mortgage market. New mortgage commitments at savings and loan associations were again sharply reduced during August, according to preliminary indications. At the end of July the seasonally adjusted backlog of outstanding commitments (including loans in process) was $18.6 billion. Although still quite large by historical standards, this amount was 14 per cent below the February peak.

Interest rates in the primary market for conventional home mortgages continued strongly upward in late August and early September. The rate on 80 per cent home loans reported in the FHLMC weekly survey of 120 S&L's rose 11 basis points during the week ending September 7. At 8.77 per cent, the rate was 59 basis points higher than at the end of July. For the third successive week respondents in all 12 FHLB districts reported that funds for home mortgages were in short supply.

In the secondary mortgage market, yields have also increased sharply since the end of July. In the September 4 FNMA bi-weekly auction of forward commitments to purchase 8.50 per cent FHA/VA loans, the average yield on offerings accepted by FNMA was 9.27 per cent--up 32 basis points from the previous auction and the highest yield since June 1970. Offerings in the September 4 auction were the largest for any auction since August 1971. In FNMA's associated auction of forward commitments to purchase high loan-to-value ratio conventional mortgages, the average yield on accepted bids was 26 basis points above the previous auction. However, owing in part to usury ceiling constraints--now a major problem in at least 24 states--and revived competition from FHA/VA mortgages which benefited from a 3/4 per cent increase in the regulatory ceiling rate effective on August 25, the volume of offerings of conventional mortgages was below that in other recent auctions.

The delinquency rate on home mortgages (MBA series) in the second quarter, at 3.8 per cent of outstanding loans held by reporting institutions, was somewhat above the first quarter level. However, the rate was still well below the peak registered in the fourth quarter of last year. The highest delinquency rates continued to involve FHA loans, especially those related to subsidy programs.

RATES AND SUPPLY OF FUNDS FOR SELECTED CONVENTIONAL
HOME MORTGAGES AT 120 S&L'S

Date	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Number of Federal Home Loan Bank districts with funds in short supply
1973			
Jan.	7.44	0	0
Feb.	7.44	0	0
March	7.46	+2	0
April	7.54	+8	2
May	7.65	+11	4
June	7.73	+8	3
July	8.05	+32	7
Aug.	8.50	+45	10
July 6	7.89	+13	5
13	8.01	+12	6
20	8.12	+11	7
27	8.18	+ 6	7
Aug. 3	8.26	+ 8	9
10	8.40	+14	9
17	8.55	+15	10
24	8.61	+ 6	12
31	8.66	+ 5	12
Sept. 7	8.77	+11	12

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Offers Received (millions of dollars)	Offers Accepted (millions of dollars)	Per cent of offers accepted	Yield to FNMA 1/ (per cent)
1972 - High	365 (5/1)	336 (5/1)	92 (5/1)	7.74 (10/30)
Low	61 (11/27)	37 (11/27)	42 (3/20)	7.53 (3/20)
1973 - May 14	258	188	73	7.96
29	212	140	66	8.00
June 11	185	142	77	8.04
25	199	119	60	8.09
July 29	536	245	46	8.38
23	351	181	52	8.54
Aug. 6	459	202	44	8.71
20	525	224	43	8.95
Sept. 4	551	289	52	9.27

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Agricultural credit. Preliminary estimates indicate that outstanding nonmortgage farm loans at banks on June 30 were 17 per cent above a year earlier--the largest percentage increase since 1951. A significant part of this increase occurred in the last half of 1972, when outstanding loans rose by 5 per cent whereas in most years there is little change during this period. The remaining gain of 11 per cent over the first half of 1973 was not unusual, as first-half increases during the last 10 years averaged 9.6 per cent. The first-half gain pales in comparison with percentage increases experienced in the other postwar farm super-boom years, for example, 1946-48 and 1951, when first-half gains ranged between 22 and 26 per cent.

While banks experienced above-average farm loan growth, the increase in outstanding loans at production credit associations was weak relative to historical experience. Since increased amounts of funds were readily available to most farmers from the latter source, it is evident that much of the large increase in farm production expenses this year has through choice been financed internally. Also, for the farm sector as a whole, part of the rise in expenses consisted of price increases on farm-produced inputs, such as feed and feeder livestock, and therefore did not generate a need for external financing.

The principal institutional farm mortgage lenders recorded considerably varied experiences in the year ended June 30. The Federal Land Banks, which recently had received more liberal loan-to-value lending authority and which continued to offer relatively attractive variable rates (based on the average cost of funds covering all outstanding loans and now ranging from 7.5 to 8 per cent), increased their outstandings by 20 per cent ($1.7 billion). Bank farm mortgage loans outstanding were up about 12 per cent, while life insurance company outstandings probably rose by only 2 per cent.

Farm lending operations of insurance companies reportedly are now being generally curtailed as a result of reduced fund availability and, in some states, restrictive usury ceilings. Because the Federal Land Banks (which are exempt from usury laws) constitute a satisfactory alternative source of funds for most purchasers of farm land, the main impact of reduced insurance company lending is likely to be on loan availability for special situations such as large ranches, timber lands, or tracts with high development potential for nonfarm purposes. Also, those rural bankers who have farm mortgage loan referral or origination arrangements with life insurance companies may temporarily lose this aspect of their ability to provide full credit services to their farm borrowers.

As in the past periods of high interest rates on farm real estate loans, financing by sellers of farms (who accounted for 43 per cent of total credit extended in connection with farm land transfers in 1972) will likely increase in relative importance. In such past periods, interest rates on most seller financing are commonly believed to have remained well below prevailing farm mortgage rates offered by institutional lenders. For tax purposes, sellers apparently prefer to realize a capital gain rather than current income, or perhaps they are not fully aware of the current discounted value of the below-market terms that they offer.

Federal finance. Current staff estimates of total Federal receipts and expenditures on a unified budget basis have not been changed since the last Greenbook. Budget receipts are projected at \$270.9 billion and expenditures at \$269.7 billion. Nevertheless, new uncertainties have developed in the outlays projection and compositional changes have been made on the receipts side.

Federal outlays for defense in the current quarter have been running about \$2 billion lower (at an annual rate) than had been anticipated. On the other hand, recent legislative initiatives in several areas suggest that increases in non-defense outlays may be somewhat larger for the full fiscal year. In addition, some uncontrollable expenditures--interest on the public debt in particular--are running high. Our estimates now incorporate the Federal pay raise in December, rather than in January as previously assumed, but the additional cost of this change is offset by the smaller size of the proposed raise, 4.8 per cent instead of the 5.5 per cent assumed earlier. On the receipts side, recent increases in the staff's GNP forecast have not produced a rise in projected total budget receipts because of an offsetting decline in our estimate of the effective social insurance tax rate.

The Treasury has been drawing down its cash balance. While early September is a time of seasonal decline, the dip has been larger than expected, resulting in direct borrowing at the Federal Reserve. The end-of-August cash balance stood at $3.1 billion, down $1.5 billion from that projected in the last Greenbook. Preliminary August receipts were somewhat smaller than had been projected and total outlays were somewhat larger. Because the September seasonal pattern in receipts calls for a large influx after mid-month, the end-of-September cash balance is projected to rise to $9.4 billion.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Aug.	Sept.	Oct.	Nov.
Total net borrowing	-0.6	0.0	1.9	2.2
Weekly and monthly bills	-0.1	--	1.8	--
Tax bills	2.0	-2.0	--	2.5
Coupon issues	2.5	2.0	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	-0.2	--	--	--
Agency transactions, debt repayment, etc.	-4.8	--	0.1	-0.3
Plus: Other net financial sources a/	-1.5	0.8	1.7 b/	-0.4
Plus: Budget surplus or deficit (-)	-2.0	5.4	-6.5	-2.2
Equals: Change in cash balance	-4.1 c/	6.2	-2.9	-0.4
Memoranda: Level of cash balance, end of period	3.1 c/	9.3	6.4	6.0
Derivation of budget surplus or deficit:				
Budget receipts	21.0	27.0	17.0	19.6
Budget outlays	23.0	21.6	23.5	21.8
Maturing coupon issues held by public	4.7 d/	--	--	3.7
Sales of financial assets	0.1	0.1	0.6	0.1
Budget agency borrowing	0.3	--	0.1	0.3
Net borrowing by government-sponsored agencies	1.3	2.2	1.9	1.5

a/ Checks issued less checks paid and other accrual items.
b/ Includes $1.2 billion in receipts which would result from the monetization of gold.
c/ Actual.
d/ The $4.7 billion of debt which was paid off on August 15 was offset by sales of $.5 billion in 20-year bonds, $2.0 billion in 4-year notes, and $2.0 billion of tax anticipation bills maturing in September 1973.

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

	Fiscal Year 1973*	Fiscal 1974 e/ Adm. Est. 6-1-73 1/	Fiscal 1974 e/ F.R. Board	Calendar Years 1972 Actual	Calendar Years 1973 FRB e/	Calendar Quarters 1973 I*	1973 II*	1973 III (F.R.B. Staff Estimates)	1973 IV (F.R.B. Staff Estimates)	1974 I (F.R.B. Staff Estimates)	1974 II (F.R.B. Staff Estimates)
Federal Budget											
Surplus/deficit	-14.4	-2.7	1.2	-17.4	-10.0	-9.5	7.6	-1.1	-7.0	-6.4	15.6
Receipts	232.2	266.0	270.9	221.5	251.9	55.2	70.9	66.1	59.7	61.5	83.5
Outlays	246.6	268.7	269.7	239.0	262.0	64.7	63.4	67.2	66.7	67.9	67.9
Means of financing:											
Net borrowing from the public	19.3	5.5	-6.1	15.2	4.7	8.4	-6.5	-1.3	4.1	1.3	-10.2
Decrease in cash operating balance	-2.5	n.a.	2.6	0.2	3.9	-1.8	0.3	3.3	2.1	1.6	-4.4
Other 2/	-2.4	n.a.	2.4	2.0	1.4	2.9	-1.4	-0.9	0.8	3.5	-1.0
Cash operating balance, end of period	12.6	n.a.	10.0	11.1	7.2	12.9	12.6	9.3	7.2	5.6	10.0
Memo 3/: Sales of financial assets 4/	4.8	n.a.	4.1	3.1	4.7	1.2	1.6	0.5	1.4	1.1	1.1
Budget agency borrowing 5/	0.4	n.a.	1.4	0.9	0.1	0.1	-0.6	0.3	0.3	0.5	0.3
Sponsored agency borrowing 6/	8.7	n.a.	17.1	3.5	16.8	2.0	5.0	5.8	4.0	3.8	3.6
National Income Sector											
Surplus/deficit	-12.1	-3.0	-2.0	-15.9	-1.5	-5.0	0.1 p/	0.0	-1.0	-2.9	-4.2
Receipts	242.9 7/	273.3	275.7	228.7	264.2	253.6	262.5 p/	267.3	273.5	279.4	282.5
Expenditures	255.0	276.3	277.7	244.6	265.7	258.6	262.4	267.3	274.5	282.3	286.7
High Employment surplus/deficit (NIA basis) 8/	n.a.	n.a.	n.a.	0.4	-1.8	-0.9	0.1	-3.2	-3.1	1.6	6.5

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

Footnotes continued

1/ The President's statement of July 26, 1973, issued with the release of budget results for fiscal year 1973, indicated that a balanced budget is expected for fiscal 1974, implying a further increase in receipts estimates to about $268.7 billion.
2/ Includes such items as deposit fund accounts and clearing accounts.
3/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.
4/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.
5/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.
6/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
7/ Quarterly average exceeds fiscal year total by $2.8 billion for fiscal 1973 due to spreading of wage base and refund effect over calendar year.
8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

STRICTLY CONFIDENTIAL (FR)

III -- T - 1

U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1972 Year	1973 p/ Q-I	1973 p/ Q-II	1973 p/ June*	1973 p/ July*
Goods and services, net 1/	-4,609	1	e/570		
Trade balance 2/	-6,912	-960	-230	-103	124
Exports 2/	-48,769	15,320	16,747	5,733	5,847
Imports 2/	-55,681	-16,280	-16,977	-5,836	-5,723
Service balance	2,303	961	e/800		
Remittances and pensions	-1,570	-400			
Govt. grants & capital, net	-3,513	-695			
U.S. private capital (- = outflow)	-8,534	-5,931			
Direct investment abroad	-3,404	-2,139			
Foreign securities	-614	47	-133	34	-99
Bank-reported claims -- liquid	-742	-1,296	821	566	-628
" " " other	-2,764	-2,053	-1,755	-881	363
Nonbank-reported claims -- liquid	-492	-626	e/-30	14	
" " " other	-517	136			
Foreign capital (excl. reserve trans.)	10,287	559			
Direct investment in U.S.	160	247			
U.S. corporate stocks	2,268	1,288	124	134	316
New U.S. direct investment issues	2,003	384	274		
Other U.S. securities (excl. U.S. Treas.)	64	66	91		
Liquid liabilities to:	4,776	-1,908	1,168	352	674
Commercial banks abroad	3,862	-1,925	735	224	909
Of which liab. to branches 3/	(178)	(-580)	(682)	(436)	(246)
Other private foreign	810	7	361	173	-71
Intl. & regional organizations	104	10	72	-45	-164
Other nonliquid liabilities	1,016	482			
Liab. to foreign official reserve agencies	10,308	9,778	-816	-253	217
U.S. monetary reserves (increase, -)	742	220	17	2	-4
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	9	--	--
IMF gold tranche	153	-13	8	-6	-4
Convertible currencies	35	233	--	8	--
Errors and omissions	-3,112	-4,073			
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,539	463		
" " , N.S.A.	-11,050	-9,998	799	251	-213
Net liquidity, S.A.		-6,709	e/-1,496		
" " , N.S.A.	-14,592	-6,297	e/-1,990	e/-665	
Liquidity, S.A. 5/		-8,631	-705		
" , N.S.A.	-15,826	-8,156	-1,203	-101	-887

* Monthly, only exports and imports are seasonally adjusted. e/ Estimate.
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 allocation of $710 million SDRs 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. The dollar has been relatively stable in foreign exchange markets since mid-August. Preliminary weekly data suggest that there was a balance of payments surplus on the official settlements basis in August, following a small deficit in July.

More complete but still preliminary data for the second quarter show that the basic deficit (on current and long-term capital transactions) was at an annual rate of a little over \$3 billion, rather than the \$2 billion earlier estimated. On the other hand, the first quarter rate of basic deficit has been revised downward from \$5 billion to \$4 billion. In both 1971 and 1972 the basic deficit had been nearly \$10 billion.

The outlook for the U.S. balance of payments continues to be bright. The trade balance in July was in surplus for the second time in four months. While there will probably continue to be month-to-month swings between deficits and surpluses during the remainder of 1973, trade surpluses should occur more consistently in 1974 and be of growing magnitude. The value of agricultural exports is expected to remain high throughout the current fiscal year as export unit values continue to rise for a time and export volumes are well sustained. The backlog of foreign orders for U.S. durable goods, particularly machinery, has steadily increased, indicating further expansion in exports of such goods. Exports of industrial materials continue buoyant. While the rate of economic advance in industrial countries abroad seems to be slowing somewhat, foreign demand for U.S. exports is likely to remain very strong for at least several more quarters.

Although the value of U.S. imports is likely to be sustained by rising prices, the volume of imports is expected to continue to decline as the pace of domestic economic expansion slows and as high import prices increasingly discourage purchases of imported goods. The volume and price of oil imports, however, should continue to rise strongly, and there may be an increase in imports of automobiles since stocks of imported cars have apparently been drawn down sharply during the past six months.

Another major element of the basic balance that is showing renewed strength is net foreign purchases of U.S. stocks. These totaled over $300 million in July and apparently continued large in August.

The continued rise in U.S. short-term interest rates has been roughly paralleled by further interest rate advances abroad, so that international rate differentials have not changed much.

Foreign exchange markets. In the last four weeks foreign exchange markets have been generally calm and exchange rate fluctuations modest compared to the wide, volatile and periodically disorderly swings in rates of the past few months. Since mid-August the dollar has firmed by less than one per cent against the major foreign currencies taken as a group and was kept from appreciating further by major foreign central bank intervention sales totaling nearly $1 billion.

On the European continent, developments in Germany, particularly in the German money market, continued to dominate movements of continental European currencies. The mark rate edged higher in late August as German commercial banks positioned themselves for end-of-month reserve requirements. Although German call money rates briefly jumped to 40 per cent, a repetition of the extreme credit squeeze which sent the mark rate soaring in late July was avoided, partially through the provision of Bundesbank credit to the banks, and the mark and German call money rates eased in early September. A further factor bolstering the demand for the dollar relative to the mark on the exchanges was the continued firming of U.S. interest rates, indicated by the 1/4 percentage point increase in the U.S. prime rate to 9-3/4 per cent in late August. The normally favorable effect of the August 24 announcement that the U.S. trade balance had moved from a deficit in June to a $1.5 billion annual rate surplus in July was offset by the nearly simultaneous announcement that the German trade surplus in July had increased to a record high 2.9 billion marks. The relative stability of the mark rate allowed the Bundesbank to quietly sell approximately $250 million in the last two weeks of August. Other continental European central banks continued to refrain from intervention activity in dollars.

The European narrow band agreement experienced little pressure during the past month. The mark and guilder alternated at the top of the band against the French franc at the bottom. Intra-European intervention was confined to modest purchases of French francs by the Netherlands Bank on several days. The Dutch central bank also purchased a total of nearly $50 million equivalent of Belgian francs during this period to maintain the narrower Benelux band.

The pound has declined by 2-1/2 per cent since mid-August, despite intervention support by the Bank of England of $150 million in the spot market and $200 million on a swap basis. Continued concern over the outlook for the U.K. balance of payments, reinforced by the U.K. government's reiterated refusal to reduce domestic demand, has contributed to sterling's recent decline.

The Canadian dollar also experienced steady selling pressure over the past month as Canadian interest rates continue to lag behind U.S. rates. The Bank of Canada has moderated the decline in the Canadian dollar exchange rate over this period through net sales of $75 million.

The Bank of Japan has continued to support the yen rate at a level 16 per cent above its Smithsonian dollar parity through daily intervention sales of dollars. These sales have totaled nearly $530 million since mid-August. The effect of these sales on Japanese official foreign exchange reserves during this period was largely offset by repayments nearly equal in magnitude by Japanese commercial banks of maturing dollar deposits previously placed at the banks by Japanese official institutions.

The gold price has fluctuated between $100 and $110 over the past month after the speculative gyrations of recent months.

Euro-dollar market. Interest rates in the Euro-dollar market have risen, on balance, over the past four weeks, but the rise has been moderate in comparison with the surge of nearly 3 percentage points between May and early August. In the week ending September 12 the weekly averages of the overnight rate and the 1-month rate were each about one-half percentage point higher than 4 weeks earlier. The weekly average differentials show very little net change over this period. For the week of September 12 reserve-free overnight Euro-dollars cost U.S. banks 17 basis points less than Federal funds, while the 1-month Euro-dollar rate continued to exceed the 30-59 day CD rate by more than a percentage point.

The increase in U.S. banks' Euro-dollar borrowings came to an end in mid-August and has since been reversed. Daily liabilities to foreign branches reported by 49 U.S. banks -- which account for nearly all such liabilities of U.S. banks -- had risen from a weekly average of $2.1 billion (close to the 1973 low) in the week of June 13, to a high for the year of $3.1 billion in the week of August 15. The reduction in the marginal reserve requirement on Euro-dollar borrowings from 20 per cent to 8 per cent in mid-May encouraged such borrowing. The high cost of Federal funds compared with overnight Euro-dollars also encouraged banks to borrow Euro-dollars. Subsequently, liabilities to branches fell to an average of $2.2 billion in the week of September 5. The phasing-out of the banks' reserve-free bases by 10 per cent (about $150 million) each reserve computation period, beginning July 5, is subjecting an increasing proportion of borrowings to the reserve requirement; this factor taken alone reduces banks' incentive to maintain borrowings.

Weekly figures suggest that borrowings abroad by U.S. agencies and branches of foreign banks have undergone very little net change since early July, when reserve deposits against increases in borrowings from foreign banks (above the average level in May) were called for under the Chairman's letter of June 1.

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) Differ-ential (1)-(2)(*)	(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate 3/	(6) Differ-ential (4)-(5)(*)
1973-Feb.	9.03	6.58	2.45 (4.71)	7.70	6.03	1.67 (3.28)
Mar.	9.19 4/	7.09	2.10 (4.40)	8.79	6.63	2.16 (3.79)
Apr.	7.43	7.11	0.31((2.17)	8.00	6.91	1.09 (2.73)
May	7.74	7.84	-0.10 (0.57)	8.16	7.10	1.06 (1.40)
June	8.19	8.49	-0.30 (0.41)	8.66	7.88	0.78 (0.85)
July	9.75	10.40	-0.65 (0.20)	9.86	8.94	0.92 (1.00)
Aug.	10.70	10.50	0.30 (1.13)	11.22	10.03	1.19 (2.17)
1973-Aug. 8	10.53	10.39	0.14 (1.06)	11.21	10.00	1.21 (1.32)
15	10.23	10.39	-0.16 (0.73)	11.08	10.13	0.95 (1.04)
22	10.74	10.52	0.22 (1.15)	11.03	10.00	1.03 (1.99)
29	10.63	10.79	-0.16 (0.76)	11.68	10.25	1.43 (2.45)
Sept. 5	11.35	10.79	0.56 (1.55)	11.53	10.38	1.15 (2.15)
12p	10.70	10.87	-0.17 (0.76	11.66	10.38	1.28 (2.29)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.
2/ Effective rates.
3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City.
4/ 8.07 excluding March 29. A technical anomaly involving a quarter-end squeeze on dollar balances raised the overnight Euro-dollar rate to 60 per cent on that date.
*/ Differentials in parentheses are adjusted for the cost of required reserves. U.S. banks' Euro-dollar borrowings in excess of their reserve-free bases are subject to a marginal reserve requirement which was at a 20 per cent rate through May 9 and has been 8 per cent since. The marginal reserve requirement rate on CD's has also been 8 per cent since June 6, raised from 5 per cent previously.

U.S. balance of payments. The overall balance on the official settlements basis in July was a deficit (not seasonally adjusted) of about $200 million; weekly preliminary data for August indicate a surplus of roughly $400 million in that month. In the second quarter the official settlements balance was a surplus of about $1/2 billion (seasonally adjusted). The surplus in the second quarter reflected net short-term capital inflows (including errors and omissions) which more than offset a deficit in the "basic" balance (current account transactions and long-term capital flows).

Data for the "basic" balance in the second quarter are still preliminary, but presently indicate a deficit of a little over $3 billion at an annual rate in that period, moderately smaller than the downward revised estimate of a $4 billion rate in the first quarter. In both calendar 1971 and 1972 the basic deficit was nearly $10 billion.

The major elements in the improvement in the basic balance in the second quarter were a further reduction in the trade deficit, reduced net Government capital outflows, and a sharp drop in the outflow of U.S. direct investments abroad (from an exceptionally high first quarter level), which more than offset a steep decline in foreign purchases of U.S. securities.

The trade deficit in the second quarter is now estimated to have been an annual rate of less than $1 billion (balance of payments basis) compared with nearly $4 billion in the first quarter. In July the trade balance shifted into a surplus of $1-1/2 billion at an annual rate (see below). The estimate of the second-quarter surplus on income and services has been revised downward to an annual rate of about $3-1/4 billion (from $4 billion) as interest payments to foreigners were higher than earlier estimated. A special advance deposit from Japan for future deliveries of uranium and prepayments for military equipment were instrumental in lowering net U.S. Government outflows in the second quarter. Such net outflows are expected to increase in the second half of the year in the absence of these special receipts.

While foreign purchases of U.S. stocks fell very sharply in the second quarter, (in May there were net sales), foreign purchases picked up strongly in July, totaling $315 million and additional large purchases are reported by brokers in August. Apparently the average value of stock purchases in July and August was only moderately below the very high monthly average of purchases in the first quarter of 1973. Sales of offshore U.S. corporate bonds also increased in July and August over the low levels of the immediately preceding months but are still below the amounts sold monthly in the first part of this year. International organizations -- the World Bank and the International Development Agency -- shifted some of their short-term U.S. assets into longer-term assets by purchasing about $150 million of U.S. agency bonds in July. U.S. private purchases of foreign bonds remained at a relatively low level in July and August and there was no significant U.S. activity in foreign stocks in those months.

U.S. bank-reported claims on foreigners (both long- and short-term) rose further in July but at a lower rate than in the second quarter. The July increase was largely in claims of U.S. agencies and branches of foreign banks. Preliminary weekly data indicate a decrease in bank claims on foreigners in August.

U.S. banks' liquid liabilities to foreign commercial banks (including foreign branches) which had increased by about $2 billion in the second quarter, increased by about an additional $1 billion in July and August (Wednesday data), mainly reflecting increased borrowing from foreign branches. However, as noted above, liabilities to branches declined very sharply in early September.

U.S. foreign trade. In July, the U.S. trade balance improved substantially to a surplus of $1.5 billion at a seasonally adjusted annual rate (balance of payments basis) from a $1.2 billion deficit in June as exports rose sharply while imports fell.

For April-July the trade deficit was at a rate of $0.3 billion compared to the first quarter deficit of $3.8 billion. On an area basis, the April-July improvement over the first quarter largely reflected a $1.6 billion reduction (annual rate, Census basis) in our trade deficit with Japan. There has also been an increase in our trade surplus with European Community countries other than Germany this year. With Germany, however, our trade deficit has not changed, running at an annual rate of over $1-1/2 billion in both the first quarter and in April-July.

Price and volume patterns evident since this spring were reinforced by the July trade figures. Strong export price rises have kept the value of total exports moving up steadily (by 10 percent from the first quarter to April-July) but the volume of total exports has increased by 4-1/2 percent with declines in the volume of agricultural exports offset by continued growth in the volume of nonagricultural exports. The value of imports rose from the first quarter to April-July only because of higher prices. The volume of imports has declined in almost every month since March. The expansion in nonagricultural exports and the decline in the volume of imports give evidence of continuing improvement in the U.S. trade position.

Despite sharp price increases the value of agricultural exports dropped slightly in July from the exceedingly high June level. The decline in shipments was broadly based; wheat, corn, soybeans and animal feeds all dropped sharply. Part of the decline in soybean shipments may reflect limitations on exports which became effective in July.

For April-July, the value of agricultural shipments increased 10 percent from the first quarter with average prices up about 15 percent and volume down 5 percent. Because of expected further increases in the prices of agricultural exports and a continuing large volume of shipments, the value of agricultural exports is expected to continue at or above current high rates well into next year.

There have also been significant increases in U.S. exports of nonagricultural commodities. In July, nonagricultural exports continued the strong rise of recent months. The increase in value from the first quarter to April-July was 11 percent, with prices up 4 percent and the volume up 7-1/2 percent. Because of strong economic activity abroad and the continuing favorable effects for U.S. exports of the exchange rate realignments, there have been rises, some very sharp, in the volume of virtually all nonagricultural commodity categories. As a result, nonagricultural exports have taken an increasing portion of U.S. nonagricultural goods output. According to preliminary estimates, nonagricultural goods output (in real terms, valued at 1967 prices) increased by about $22 billion at an annual rate from the last half of 1972 to the first half of 1973. The volume of nonagricultural exports increased at a $4 billion rate over that period, nearly a fifth of the total increase. From 1971 to 1972, exports accounted for only 10 percent of the growth in total nonagricultural goods output. The outlook for continued increases in export shipments appears to be good; foreign orders for durable goods were high again in July and the backlog of unfilled orders has increased steadily each month since January.

Exports of industrial supplies have been particularly buoyant because of supply shortages accompaying the strong rise in output abroad which have contributed to a cumulative buildup of demand. This year the quantities exported of aluminum, steel scrap, steel mill products, chemicals, lumber, and plastic materials have all increased, by 20 to 90 percent, above shipments in the same period a year ago. Also, export shipments of some of these products (for example, steel scrap and aluminum) have taken an increasing percentage of available U.S. supply; the growth in this supply has also been limited by lower imports of some of these products. Increased disposals from government stockpiles have helped alleviate tightness in the supplies of some products. For example, from January through June 300 thousand tons of aluminum were released from stockpile (an amount equivalent to 13 percent of first-half U.S. primary aluminum production) compared to 6 thousand tons for all of last year and none in 1971. By the end of August, this disposable stockpile was further reduced by 245 thousand tons; leaving an additional 500 thousand tons available for disposal.

Imports in July, were characterized by declines in foods (notably coffee and fish), in automotive products from Europe and Japan, in other consumer goods, and by an unusual but presumably temporary dip in fuel imports. Between the first quarter and April-July there were volume declines in all commodity categories except fuels and capital goods. The increasing cost of imported goods has had considerable damping effect on the amount of imports being purchased. The number of foreign cars imported from Europe and Japan declined between the first quarter and April-July, while their average price increased by nearly 20 percent. However, the number of foreign car sales continued to exceed the number of cars imported, as it has every quarter for the past year, suggesting that inventories continued to be drawn down. Possibly this reduction in inventories will lead to an increased number of auto imports in the coming months.

Economic activity in major industrial countries. As in the United States, the exceptionally high rates of growth in aggregate output have begun to slow in most other major industrial countries. This is indicated by recent data on industrial production -- summarized in Table 1 -- which show that output, except in Italy, advanced much more slowly in recent months than it did either earlier in the year or from mid-1972, when a widespread acceleration in the rate of economic expansion began.

A major factor in the upswing was the effort to build up stocks of intermediate goods from their low post-recession levels, partly to restore stock-sales ratios, and partly in anticipation of rising costs and prices; inflationary expectations also played a role in the strong advance of consumer expenditures. In addition, revived private demand for fixed capital investment broadened out the general advance in early 1973. Meanwhile, rapid expansion of international trade served to spread the impact of these and other demand forces very widely.

In almost all countries -- including several, such as the United Kingdom, France, the Netherlands and Canada, where relatively high unemployment persists -- capacity utilization rates have risen to the point where growth is now being inhibited (though to some extent the statistical evidence of slackening in recent output growth, mainly because of seasonal adjustment difficulties, overstates the underlying developments thus far). Furthermore, in order to counter very high and rising rates of inflation, several countries -- notably Germany, Japan, France and Belgium -- have taken measures, of varying intensity, to slow expansion through damping aggregate demand. However, at least to date, emerging capacity restraints have been a more important factor than efforts to ease demand pressures in slowing growth.

The current deceleration in growth was virtually inevitable in view of the very rapid pace of expansion in preceding months and reflects a return to more moderate rates of advance, roughly equal, in general, to the long-term trend. The one exception may be developments in consumer expenditures in some countries -- particularly the United Kingdom -- where the high rates of inflation have cut into purchasing power and real spending increases may be moderating significantly.

Inflation rates have remained high everywhere. As indicated in Table 2, with the sole exception of the United States, the rise in consumer prices from mid-1972 to mid-1973 exceeded 6-1/2 per cent. And in every case the rate of increase in this period was at least slightly higher than from end-1971 to end-1972. The continued rapid rise in prices can be attributed in large measure to supply problems in the food sector, to a flattening out of the high rates of productivity increase associated with the early part of the upswing and to the wearing off of the moderating effects of exchange rate revaluations.

TABLE 1

CHANGES IN INDUSTRIAL PRODUCTION (SAAR)
(per cent)

	Latest 3 mos. from previous 3 mos. a/	Previous 3 mos. from 3 mos. earlier	Latest 3 mos. from same period previous yr.
OECD Europe	4.8	15.4	8.5
EEC	4.8	15.5	8.2
Germany	0	16.5	7.7
France	0.7	16.6	9.1
Italy	26.3	-20.5	9.8
Netherlands	-5.6	15.5	5.9
Belgium	1.2	16.5	8.7
United Kingdom	7.4	9.2	8.4
Norway	0.8	3.4	3.3
Sweden	5.1	9.2	6.2
Japan	14.5	21.9	19.2
Canada	4.8	11.7	8.9
United States	5.8	8.8	9.7

a/ Latest month is July for Japan and United States; June for France, Germany, Italy, United Kingdom, Canada, and Norway; and May for OECD-Europe, EEC, Belgium, Netherlands, and Sweden.

Data are from OECD Main Economic Indicators and national sources.

TABLE 2

CHANGES IN CONSUMER PRICES
(per cent)

	To November-December 1972 from November-December 1971	To June-July 1973 from June-July 1972
Germany	6.4	7.5
France	6.9	7.4
Italy	7.3	11.6
Netherlands	8.0	8.3
Belgium	6.2	6.8
United Kingdom	7.6	9.4
Denmark	7.0	8.9 a/
Norway	7.6	7.6
Sweden	6.0	6.6 a/
Japan	5.2	12.7 b/
Canada	5.1	7.9
United States	3.5	5.8

a/ May-June 1973 from May-June 1972.
b/ July-August 1973 from July-August 1972.

Data are from OECD Main Economic Indicators; IMF International Financial Statistics; and national sources.

Official statistics indicate that real economic growth in Germany, which was very rapid from mid-1972 through the first quarter of this year, may have slowed, or ceased entirely, in the second quarter. However, the evidence at this time is unusually difficult to interpret. Shifts in vacation periods and the very mild winter put seasonal adjustment factors in question. Thus it was possible for one of the most respected economic research institutes in Germany, the DIW, using its own seasonal adjustment factor, to compute GNP figures markedly different from the official ones.

The DIW's GNP estimates trace a smoother growth path than do the official figures, yielding relatively low growth in the first quarter, relatively high growth in the second. For the year starting with the second half of 1972, the DIW estimates a 6-1/2 per cent annual rate of growth in real GNP. In contrast, the Bundesbank estimates an annual rate of growth in GNP from June 1972 through March 1973 of about 11 per cent, implying a significant slowdown in the second quarter of this year.

Despite the difficulty of interpreting the meaning of the real output statistics for recent months, there appears to be general agreement that growth in the second half of 1973 will be slower than in late 1972 and early 1973 and that the slowdown will intensify next year, as policy measures aimed at containing aggregate demand work through the system.

The Bundesbank has steadily tightened monetary policy for almost a year, and fiscal measures -- which are expected to grip in coming months -- were taken in May, to supplement a relatively restrictive budget. Thus slackening in the pace of economic expansion is expected to derive primarily from a deceleration in the growth of demand, particularly since existing capacity would allow further expansion, even though some bottlenecks, as well as a natural reaction to previous very high rates of expansion, can also be expected to contribute to the slowdown. At mid-year, the unemployment rate was well above the low, and the capacity utilization rate in industry well below the high, reached in the previous boom.

Data on new industrial orders also suggest an easing of demand pressures. Such orders, after a prolonged rapid rise, declined slightly from the first to the second quarter, as a continued, if somewhat more moderate, increase in export orders was more than offset by a decrease in domestic orders.

Although aggregate demand is apparently responding to the restraint measures taken so far, price indicators are reacting more slowly, if at all. There has been some deceleration in the advance of producers prices for industrial goods in recent months, and the consumer price index did not rise from June to July. However, the stability of the index in July was due entirely to a fall in food prices, with the advance in non-food prices continuing to accelerate. Seasonally adjusted, the latter rose at annual rate of about 8 per cent from February-April to May-July, compared to a rise of about 7 per cent, annual rate, from November-January to February-April. Little, if any, slowing in consumer prices is expected before next year.

The government's campaign to reduce the rate of inflation has recently been threatened by a wave of wildcat strikes, mostly in the metal and metal working industries. The principal objective of these strikes is to obtain compensation for the unexpectedly rapid increase in the cost of living. The walkouts are being conducted mostly by workers who received a relatively moderate 8-1/2 per cent annual wage hike early in the year. Wage agreements reached later in 1973 -- when it had become apparent that price inflation was much more intense than had originally been foreseen -- generally provided for significantly higher increases. But the government fears that success by the strikers could markedly boost the rate of wage inflation.

There are clear signs that Japan's economic upswing, dating from early 1972, has slowed down. Industrial production, for instance, after rising at an accelerating pace from mid-1972 through the first quarter, increased at a high but substantially reduced rate in the next four months. The fourth-to-first quarter and first-to-second quarter annual rates of increase were 29 and 16 per cent, respectively.

The rate of expansion in real GNP peaked at the end of last year, when the increase from the third to the fourth quarter reached an annual rate of 17 per cent. The first quarter rise -- at 15 per cent -- was slightly lower, and in the second quarter there was a rather sharp deceleration, GNP rising at an annual rate of about 6 per cent. The main stimulative forces have been investment in fixed capital, by both the private and public sectors, and efforts to build up inventories. Large balance-of-payments surpluses on current account contributed heavily to expansion last year, but the surpluses have declined this year.

To a limited degree, the slower pace of economic activity in recent months may reflect the effects of stabilization measures adopted by the authorities to combat inflation. Price indicators show that the rate of inflation has in fact slowed somewhat of late, though both wholesale and consumer prices are still rising at very rapid rates. Restrictive actions taken by the monetary authorities this year include four increases in both the Bank of Japan's discount rate and reserve requirements and imposition of increasingly restrictive limits on the rate of loan expansion by the large city banks. The last increase in the discount rate, on August 29, was by a full percentage point -- the largest single change since 1956. Since mid-year the government has tightened fiscal policy, primarily acting to restrain the volume of public works expenditures.

However, neither these measures, nor, to date, the revaluation, have substantially reduced aggregate demand pressures. New orders for machinery, for example, have continued at a very high level since the final months of 1972. It would seem, then, that the slower rate of economic growth in Japan is primarily a function of a steadily decreasing margin of spare capacity, plus special factors causing supply shortages. The capacity utilization rate in manufacturing this year has been approaching the very high level reached in the previous boom.

Because of the combination of a restrictive policy stance and dwindling spare capacity, growth is not expected to return to the high rates that prevailed from early 1972 through early 1973. The rise in GNP from 1972 to 1973 is expected to be about 11 per cent.

There is mounting evidence that the growth of economic activity in the United Kingdom, which has been rapid by previous standards, has begun to decelerate. Real GNP grew at an estimated annual rate of about 4 per cent from the second half of 1972 to the first half of 1973. The annual rate of increase from the first to the second half last year was about 6 per cent.

The principal element in the slowdown in GNP growth has been a decline in the rate of increase in real private consumption expenditures, which account for almost three-quarters of British GNP. Growth in consumer outlays from the second half last year to the first half this year was at an annual rate of 4 per cent, half the rate of increase between the first two halves of 1972. In the second quarter of 1973 consumer outlays actually fell, reflecting primarily the bulge in consumer buying early in the year in anticipation of the value-added tax which took effect April 1. A decline had been expected, but the size of the drop -- 3 per cent -- came as a surprise.

In contrast to private consumption, capital expenditures and exports grew rapidly in the first half. Total investment rose at an annual rate of about 7 per cent from the second to the first half, reflecting a sharp acceleration from the very slow rate of growth during 1972. Investment expenditures by manufacturing industries grew especially fast in the first half -- at an annual rate of about 14 per cent. The annual rate of increase in the volume of exports between the last six months of 1972 and the first six of 1973 was about 25 per cent.

The strength of exports and investment combined with a slowdown in consumer expenditures sufficient to slow the rate of increase in GNP as a whole is precisely what the government had hoped for. However, there are reports that the economy -- despite slower growth and an unemployment rate of 2.5 per cent (high in comparison to the 1960's) -- is fast approaching an excessively high level of capacity utilization.

Furthermore, the government's success in slowing the rise in real consumer expenditures has been achieved only at the high cost of holding down the growth of real income through rapid inflation. Wage earnings have increased only slightly faster than prices since Phase I of the government's price/wage policy was introduced last November, and real disposable income appears to have risen little, if at all, since the end of the year.

Official policy this year has been expansionary in the sense that the very large borrowing requirement in the March budget has been allowed to produce a very sizable increase in the money supply.

Aggregate output in France, as elsewhere, rose very rapidly in late 1972 and the first quarter of 1973. There were widespread strikes in the spring, but there are no clear indications that the general trend of real GNP is slowing appreciably from the 5 to 6 per cent rate maintained on the average since 1971.

Growth is expected to slow moderately next year, however, both because of capacity limitations and governmental moves to reduce inflation. The relatively high rate of unemployment -- reflecting substantial increases in productivity and a rapid rise in the working age population -- obscures growing shortages of skilled labor. In addition, about 40 per cent of French industrial firms report an absence of spare capacity.

Inflation, which had been somewhat mitigated early in the year by reductions in the value-added tax, has resumed its upward trend. The authorities have sought to counter inflation primarily by steadily tightening monetary policy. Monetary measures since April have included two increases in the Bank of France's discount rate, a reduction in the permissible growth of bank loans to the private sector, additional reserve requirements, and personal loan ceilings. In addition, to supplement monetary actions in battling price rises, a system of price controls for most industrial goods has been introduced.

In contrast to most other OECD countries, Italy is neither experiencing a slowdown in economic growth nor expecting one to occur later this year or in 1974. The explanation is that the economic recovery in Italy, dating from late 1972, began from such a low level of economic activity that unutilized resources are still in abundant supply. Consequently, the Italian economy is not faced with the capacity limitations now slowing growth elsewhere and, because of the large amount of slack, economic policy remains, on balance, expansionary, despite the severity of inflation in Italy.

The recovery, which was aided by stimulative monetary and fiscal policies, was interrupted in the first quarter by strikes. However, the economy rebounded in the second quarter, industrial production rising to a level over 10 per cent higher than in the second quarter in 1972.

Real GNP, most forecasters agree, will be about 4-1/2 per cent higher this year than last, and the increase would have been higher still but for the first quarter work stoppages. The increase from 1971 to 1972 had been only 3.2 per cent. Looking ahead, the OECD predicts a rise in real GNP from the second half of 1973 to the first half of 1974 of over 5 per cent, annual rate.

Rises in real consumption expenditures are contributing heavily to the recovery. Consumption has been stimulated by the large wage increases in the 3-year wage contracts concluded in late 1972 and early 1973. Fixed investment, which was virtually unchanged from 1971 to 1972, is again rising. Exports are an expansionary force, too, though the rise may be lower in 1973 than in 1972 because of the adverse effect on exports of the strikes at the beginning of the year. Rising lira prices may also inhibit foreign demand for Italian goods.

Fiscal policy remains stimulative, with the central government budget deficit expected to increase again this year. Monetary policy has been moderately tightened recently -- credit ceilings were placed on bank loans to certain borrowers at the end of July -- but probably not enough to slow the pace of recovery.

In line with developments elsewhere, economic growth in Belgium is expected to moderate from its current very rapid rate to more normal levels in response to relatively tight capacity conditions and efforts to slow a rate of inflation high by Belgian standards. In the Netherlands, too, growth is likely to slow somewhat from its present rather brisk pace. Unemployment is very high there but, because of the persistence of severe inflation, the government is reluctant to institute strong expansionary measures. Growth is further inhibited by tight capacity conditions in industry, perhaps reflecting the relatively low level of business capital investment in 1971 and 1972.

Sweden may prove an exception to the prevailing pattern of decelerating growth. High unemployment, a large margin of spare plant capacity, and the continuing expansionary thrust of policy in spite of rapid inflation make it possible that GNP growth next year will be no lower than the anticipated 5 per cent rise in 1973. However, growth in Sweden, as in all the smaller countries of Europe, will be adversely affected by slowdowns in the major European countries and in the United States.

Growth of Canadian GNP, which slowed markedly in the second quarter and which has been curtailed by strikes in the current quarter, will probably rebound at the end of the year, barring further strikes. However, high rates of capacity utilization and slower expansion in the United States will prevent a resumption of the very rapid advance in late 1972 and early 1973, when real GNP was increasing at an annual rate of 11 per cent. Nevertheless, GNP next year may still advance relatively rapidly, at about 6 per cent, since business investment is expected to show strength and since the government is still intent on lowering unemployment. As in France, the high jobless rate is in large measure a reflection of the fast rate of increase in the working age population. Prices in Canada continue to rise at a very fast pace, but the government has avoided measures that would restrict aggregate demand in its recent efforts to counter inflation.