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Part 2

July 9, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

**Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System**

CONFIDENTIAL (FR)

July 9, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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	June	7/3/75	92.3	-7.7	2.2	1.6
Unemployment rate (per cent)	June	7/3/75	8.6	9.2 ^{1/}	8.7 ^{1/}	5.2 ^{1/}
Insured unemployment rate (%)	June	7/3/75	7.0	7.0 ^{1/}	6.4 ^{1/}	3.3 ^{1/}
Nonfarm employment, payroll (mil.)	June	7/3/75	76.5	.4	.5	-2.5
Manufacturing	June	7/3/75	18.1	-.9	-1.0	-10.3
Nonmanufacturing	June	7/3/75	58.4	.8	1.0	.2
Private nonfarm:						
Average weekly hours (hours)	June	7/3/75	36.0	36.0 ^{1/}	35.9 ^{1/}	36.7 ^{1/}
Hourly earnings (\$)	June	7/3/75	4.49	5.4	4.5	6.7
Manufacturing:						
Average weekly hours (hours)	June	7/3/75	39.1	39.0 ^{1/}	38.8 ^{1/}	40.1 ^{1/}
Unit labor cost (1967=100)	May	6/27/75	149.2	8.1	13.0	14.6
Industrial production (1967=100)	May	6/16/75	109.2	-3.3	-7.2	-13.1
Consumer goods	May	6/16/75	121.5	20.1	9.1	-6.3
Business equipment	May	6/16/75	113.5	19.8	-19.4	-12.9
Defense & space equipment	May	6/16/75	81.8	-5.8	-2.9	-.5
Materials	May	6/16/75	103.0	17.2	-16.4	-20.2
Consumer prices (1967=100)	May	6/20/75	159.3	4.2	4.9	9.5
Food	May	6/20/75	171.8	6.3	.9	7.6
Commodities except food	May	6/20/75	147.8	2.4	6.0	10.1
Services ^{2/}	May	6/20/75	164.5	2.9	4.7	10.0
Wholesale prices (1967=100)	June	7/3/75	172.6	-1.7	7.0	11.6
Industrial commodities	June	7/3/75	170.0	4.6	2.6	11.1
Farm products & foods & feeds	June	7/3/75	179.6	-16.5	16.0	12.7
Personal income (\$ billion) ^{3/}	May	6/18/75	1211.9	9.3	6.2	6.8
						(Not at Annual rates)
Mfrs. new orders dur. goods (\$ bil.)	May	7/1/75	39.2	1.3	6.0	-16.0
Capital goods industries:	May	7/1/75	12.1	1.0	-.5	-13.1
Nondefense	May	7/1/75	10.4	1.0	4.4	-11.8
Defense	May	7/1/75	1.7	.9	-23.0	-20.4
Inventories to sales ratio:						
Manufacturing and trade, total	Apr.	6/13/75	1.65	1.70 ^{1/}	1.68 ^{1/}	1.46 ^{1/}
Manufacturing	May	7/1/75	1.88	1.87 ^{1/}	1.93 ^{1/}	1.61 ^{1/}
Trade	Apr.	6/13/75	1.43	1.45 ^{1/}	1.45 ^{1/}	1.31 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	May	7/1/75	.845	.844 ^{1/}	.812 ^{1/}	.703 ^{1/}
Auto sales, total (mil. units) ^{3/}	June	7/7/75	8.7	12.7	12.8	-6.3
Domestic models	June	7/7/75	7.1	13.8	16.9	-12.0
Foreign models	June	7/7/75	1.6	7.9	-2.3	31.9
Housing starts, private (thous.) ^{3/}	May	6/17/75	112.6	14.2	12.6	-23.2
Leading indicators (1967=100)	May	6/26/75	95.9	2.1	6.3	-17.7

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Evidence is accumulating that recovery is underway in a number of key areas. In May, private housing starts and durable goods orders rose further. June retail sales were about unchanged--following the strong May rise--and consumer attitudes appear to be somewhat improved. Nonfarm payroll employment was about unchanged in June for the third consecutive month and preliminary data indicate that industrial production stabilized or was up slightly. Substantial inventory liquidation is still in process, however, and is retarding expansion of employment and industrial activity. Price performance has shown further improvement, although recent price increases for petroleum products--only partially reflected in the indexes so far--portend some upward pressure in the months ahead.

On balance, incoming information has not significantly modified the staff appraisal of recent levels of economic activity. While inventory liquidation in the second quarter appears to be deeper than formerly estimated, expenditures were stronger than expected in several areas, including net exports, government purchases, and, to a lesser extent, consumer expenditures. We still anticipate that real GNP changed little in the second quarter.

The industrial production index is estimated to have been unchanged or to have risen slightly in June following the small decline of the previous month. Output of both durable and nondurable consumer goods apparently increased further while production of business equipment continued to decline. Output of construction products appears to have changed little.

Auto assemblies rose from a 6.6 million unit annual rate in May to a 7.2 million rate (p) in June. Auto inventories changed little in June and production schedules for the third quarter call for a further rise in assemblies to about a 7.6 million unit rate.

Among materials, steel output declined considerably further in June, indicating attempts to reduce inventories. Production of textiles, paperboard and chemicals are estimated to have increased further, and the capacity utilization rate of major materials producing industries probably rose somewhat further in June.

Auto sales continue to improve, although the level remains relatively depressed. In June sales of domestic models were at 7.1 million unit annual rate, up from 6.2 million in May and 5.7 million in April. Sales of foreign autos, at a 1.6 million unit annual rate in June, have held stable since last March. As a further stimulus to sales, Chrysler announced price cuts in the form of rebates on most of its 1975 model cars to run through November.

For the entire second quarter retail sales, exclusive of autos and nonconsumer items, were up about 2 per cent following a 1.6 per cent gain in the first quarter and a small decline in the fourth quarter of 1974. Perhaps as a result of the tax rebate, purchases in the second quarter picked up disproportionately among stores which sell less essential items. For example, food purchased away from home increased by about 3 per cent. Sales of general merchandise were up almost 5 per cent, outlays for furniture and appliances advanced almost 4-1/2 per cent and spending at apparel stores was up close to 3.0 per cent--an average gain of 4.5 per cent for the GAF stores.

The Michigan SRC survey of consumer attitudes, taken in May, found consumers much less pessimistic than in February about their future financial situation as well as the outlook for business conditions. More respondents thought it was a good time to buy large household durables, autos and houses. However, the index of consumer sentiment remained lower than in other cyclical troughs during the 25-year history of the survey.

In May new orders for durable goods rose 1.3 per cent further following the very strong 9.2 per cent rise recorded in April. There was continued strength in orders received by primary metals producers, but there was a weakening of orders in electrical machinery and motor vehicles. Orders for nondefense capital goods--which anticipate business expenditures on machinery and equipment--rose by 1 per cent.

From the peak last August to the trough in March durable goods orders fell a total of 23 per cent. The May level was only about 10 per cent above the March low, and below the current level of shipments. Thus, unfilled orders for durables continued to drop for the eighth consecutive month and are now at a level 13 per cent below last September's peak.

Contracts for commercial and industrial construction (measured in square footage of floor space) dropped back in May by over 20 per cent following April's exceptionally strong advance. The May level of contracts was more than 40 per cent below the year-earlier figure.

Private housing starts in May advanced to a seasonally adjusted annual rate of 1.13 million units--14 per cent above the April rate, and 23 per cent above the low last December. Starts of both single-family and

multifamily units shared in the increase and the improvement was widespread geographically. Residential building permits were up 9 per cent further in May, to about a third above their low in March of this year. Moreover, sustained improvement in the supply of mortgage credit, sharp increases in sales of new and existing homes, further reductions in builder backlogs of units under construction, and the slowing in overall construction cost increases all suggest that housing starts should show additional gains during the summer. Also, some further government support of activity now seems likely because of the enactment of the revised housing bill.

The liquidation of business inventories in the second quarter now appears to be larger than previously estimated. Data on the book value of manufacturers' inventories show a \$17.3 billion annual rate of decline in May; the liquidation in April was at a \$12.1 billion rate. As expected, durable stocks decreased at a faster rate than in April, but the liquidation of nondurables continued at a higher rate than expected. Manufacturers have achieved a considerable reduction in industrial materials in the last three months, which may help explain the recent drop in imports of industrial materials.

In the labor market, the unemployment rate fell to 8.6 percent, seasonally adjusted, in June--down 0.6 of a point from May--as the civilian labor force dropped sharply. This decline in joblessness, however, was almost wholly the result of seasonal adjustment problems when unemployment is extremely high. Typically, a large influx of school graduates and students seeking work occurs in June. The seasonal adjustment of this June's

cohort is misleading for two reasons. First, students appear to have begun their employment search earlier this year--perhaps in anticipation of fewer summer jobs. Second, the method of seasonal adjustment implicitly assumes that the increase in joblessness among young jobseekers in June is proportional to their level of unemployment. When there is an exceptionally high level of unemployment, this proportional relationship is likely to break down. These problems probably caused the reported rate to overstate joblessness in May and understate it in June. A better indication of recent changes in the underlying state of the labor market may be obtained from unemployment rates for adults--which are not significantly affected by the summer seasonality problems. These data indicate relatively little change in unemployment between May and June.

Selected Unemployment Rates

(Seasonally Adjusted)

	Jan.	Feb.	Mar.	April	May	June
Men, 25+	4.8	5.0	5.4	5.6	5.8	5.9
Females, 25+	7.1	6.9	7.3	7.5	7.5	7.6
State-insured	5.5	5.9	6.4	6.8	7.0	7.0

Payroll employment was little changed from May but up over 100,000 from its April low. Factory employment was about unchanged at 18.1 million, seasonally adjusted, in June. The pattern of change was mixed. Gains were recorded in transportation equipment, lumber, and apparel, while losses were most significant in machinery, fabricated metals,

and food. Service-producing jobs rose by nearly 100,000 with increases concentrated in retail trade, services and State and local government. Jobs in contract construction declined by 50,000, however.

The average hourly earnings index rose at a 12 per cent annual rate in June. However, this series is volatile, and the June increase follows relatively small rates of change in recent months. From the first to the second quarters of 1975, the index rose at an annual rate of 6.6 per cent, down from 8.3 per cent in the first quarter. Sharp upward movements in construction and manufacturing in June were partially offset by more moderate increases recorded in transportation and trade.

The inflation rate continues to moderate despite recent sharp increases in prices for petroleum products. Wholesale prices declined 0.1 per cent, seasonally adjusted (not at an annual rate) from May to June, as lower prices for farm and food products more than offset a rise in prices for industrial commodities. The index of farm and food products fell 1.4 per cent, seasonally adjusted, with declines chiefly for sugar, grains, eggs, and cotton. There were partially offsetting increases for fresh fruits and vegetables, meats, and manufactured animal feeds.

Industrial commodities rose 0.4 per cent seasonally adjusted--slightly more than in recent months--owing mainly to higher prices for crude petroleum, refined petroleum products, and machinery and equipment. The recently announced increases in gasoline prices of 2 to 3 cents a gallon are not yet reflected in these figures. Only a part of these gasoline price increases can be accounted for by the June hike in the import fee. The annual rate of increase in prices of industrial commodities over the first six months of this year is 3.4 per cent; last year they rose more than 25 per cent.

In May consumer prices rose at an annual rate of about 4 per cent, seasonally adjusted. There was marked further slowing of inflation for nonfood commodities and services, but food prices rose, reflecting a sharp advance in meat prices--following previous increases at the farm and wholesale levels. Much of the meat price increase was offset by declines for a wide variety of other foods. Prices of meat, especially beef, are expected to come down later this year.

The staff has not made any major modifications in the fiscal year 1976 budgetary outlook since the last Greenbook. Federal spending continues to be forecast at approximately \$367 billion, equal to the target set by the Congress in mid-May, but \$3 billion more than the President's most recent estimate. The recently passed housing bill has been incorporated into the staff forecast, but it is estimated to have very little impact on net outlays, due to the fact that mortgage purchases by GNMA are largely offset by sales from its portfolio. With revenues expected to total about \$298 billion, the staff is projecting a FY '76 deficit of approximately \$69 billion.

As for fiscal year 1975, final budget data will not be available until late July but reasonably complete information suggests a deficit of about \$45 billion. Expenditures were about \$326.5 billion, approximately \$5 billion higher than in the June Greenbook. This upward revision is attributable mainly to the postponement of previously expected asset sales, which are recorded as negative outlays. In addition, incoming data suggest that defense and nondefense purchases were stronger in the second quarter than previously estimated.

Table 1

AUTO SALES

(Seasonally adjusted annual rates)

	Total	Domestic			Imports
		Total	Large	Small	
1974:QI	9.0	7.5	4.8	2.7	1.6
QII	9.2	7.9	5.4	2.5	1.3
QIII	10.1	8.5	5.5	3.0	1.6
QIV	7.4	6.0	3.9	2.2	1.3
Oct.	8.0	6.4	3.9	2.5	1.6
Nov.	7.0	5.7	3.7	2.0	1.3
Dec.	7.2	6.1	4.0	2.1	1.1
1975:QI	8.3	6.6	3.6	3.0	1.7
QII	7.9	6.3	4.1	2.2	1.6e
Jan.	8.1	6.6	3.7	2.9	1.5
Feb.	9.2	7.2	3.6	3.6	2.0
Mar.	7.7	6.0	3.6	2.4	1.6
Apr.	7.3	5.7	3.8	1.9	1.6
May	7.7	6.2	4.1	2.1	1.5
June	8.7	7.1	4.5	2.6	1.6e

Table 2

Retail Sales

(Per cent change from previous period)

	---1974---		-----1975-----			
	III-IV	IV-I	I-IIe	Apr.	May	June e
Total	-3.2	2.7	2.0	1.2	2.2	.0
Durable	-10.9	5.3	2.1	4.7	2.7	1.2
Autos	-15.5	7.2	2.6	5.7	3.5	2.1
Furniture & appliances	-7.0	-.7	4.3	3.7	-.1	2.0
Nondurable	.4	1.6	2.0	-.2	2.0	-.5
Food group	1.6	2.9	-.7	-2.7	1.3	.6
Eating & drinking	5.3	3.4	3.1	1.7	1.3	.8
Gen'l. Mdse.	-1.5	.3	4.9	.8	3.1	.4
Gasoline	-1.3	1.2	3.4	1.3	2.0	.2
Total, X autos & nonconsumer goods	-.1	1.6	2.0	-.1	1.8	-.3
GAP	-3.1	1.0	4.4	1.8	2.5	0.1
Real*	-6.2	.9	n.a.	.7	1.8	n.a.

e Staff estimate

* Deflated by SA all commodities CPI

Table 3

New Orders
(Per cent change from prior month)

	Total Durable Goods	Nondefense Capital Goods
1974: July	1.8	6.6
Aug.	3.7	-7.8
Sept.	-6.2	.2
Oct.	-2.8	-3.8
Nov.	-4.2	-6.7
Dec.	-12.4	-1.5
1975: Jan.	-4.7	-3.7
Feb.	2.7	-1.1
Mar.	-4.1	-4.5
Apr.	9.2	8.3
May (p)	1.3	1.0

Table 4

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

	1970 ^{1/}	1974	1975			Per cent change in May from:	
	QI		QI	Apr. (r)	May (p)	Month ago	Year ago
Permits	1.10	.81	.69	.84	.91	+ 9	-22
Starts	1.24	1.00	1.00	.99	1.13	+14	-23
1-family	.69	.76	.75	.77	.89	+15	- 4
2- or more-family	.55	.24	.25	.22	.24	+11	-56
Under construction ^{2/}	.89	1.23	1.11	1.09	n.a.	- 2 ^{3/}	-30 ^{3/}
Completions	1.39	1.63	1.38	1.17	n.a.	- 9 ^{3/}	-32 ^{3/}
MEMO:							
Mobile home shipments	.37	.20	.20	.19	.22	+15	-45

^{1/} Previous cyclical trough.

^{2/} Seasonally adjusted, end of period.

^{3/} Per cent changes based on April.

Table 5

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

	1974		1975		
	QIII	QIV	QI	April	May
Manufacturing and trade	59.2	52.9	-11.4	-21.3	n.a.
Manufacturing	37.7	29.7	3.2	-12.1	-17.3
Durable	23.3	19.1	7.6	-.9	-6.4
Nondurable	14.5	10.6	-4.5	-11.2	-11.0
Trade, total	21.4	23.2	-14.5	-9.2	n.a.
Wholesale	8.6	8.3	-4.1	-6.0	n.a.
Retail	12.8	14.9	-10.4	-3.2	n.a.
Auto	4.0	11.8	-8.5	1.2	n.a.

INVENTORY RATIOS

	1974		1975	
	April	May	April	May
<u>Inventory to sales:</u>				
Manufacturing and trade	1.46	1.47	1.65	n.a.
Manufacturing, total	1.62	1.61	1.87	1.88
Durable	2.04	2.02	2.46	2.48
Nondurable	1.17	1.17	1.28	1.26
Trade, total	1.31	1.32	1.43	n.a.
Wholesale	1.08	1.12	1.28	n.a.
Retail	1.50	1.49	1.55	n.a.
<u>Inventories to unfilled orders:</u>				
Durable manufacturing	.714	.703	.844	.845

SELECTED UNEMPLOYMENT RATES
(Seasonally Adjusted)

	1974		1975	
	June	December	May	June
Total	5.2	7.2	9.2	8.6
Men 20 years and over	3.5	5.3	7.3	7.0
Women 20 years and over	5.1	7.2	8.6	8.1
Teenagers	15.8	18.1	21.8	19.2
Household heads	3.1	4.6	6.3	6.1
White	4.8	6.4	8.5	7.9
Negro and other races	9.0	12.5	14.7	13.7
White collar workers	3.2	4.1	5.4	4.8
Blue collar workers	6.2	9.3	13.0	12.6
State insured*	3.3	4.8	7.0	7.0

* per cent of covered workers

Table 6
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CHANGES IN NONFARM PAYROLL EMPLOYMENT
(IN THOUSANDS)

	Employment June (p) 1975	Average Monthly Change		
		June 1974- June (p) 1975	Dec. 1974- June (p) 1975	May (p) 1975- June (p) 1975
Total Nonfarm	76,464	-163	-204	+25
Goods-producing	22,229	-218	-229	-62
Construction	3,417	-48	-63	-52
Manufacturing	18,099	-173	-174	-14
Durable	10,496	-121	-132	-25
Nondurable	7,603	-51	-42	+11
Service-producing	54,235	+55	+25	+87
Trade	16,858	-14	-9	+45
Services	13,798	+25	+10	+23
Government	14,920	+59	+55	+17
State & local government	12,204	+59	+59	+31

p = preliminary

Table 7
II - 14

HOURLY EARNINGS INDEX*
 (Seasonally adjusted; per cent change from preceding period, annual rates)

	1974:III	1974:IV	1975:I	1975:II	May 1975- June 1975
Total private nonfarm	10.8	9.7	8.3	6.6	12.2
Manufacturing	12.3	11.7	9.0	8.0	11.9
Construction	13.1	6.2	5.6	6.5	20.7
Trade	11.5	8.1	8.8	5.7	7.9
Services	4.8	8.8	9.4	5.5	9.7

Table 8
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*Excludes the effects of fluctuations in overtime premium in manufacturing and shifts of workers between industries.

Table 9

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)^{1/}

	Relative importance to Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to June 1975	May to June 1975
WHOLESALE PRICES					
All commodities	100.0	20.9	-6.3	7.2	-1.7
Farm and food products	29.1	11.0	-27.6	17.0	-16.5
Industrial commodities ^{2/}	70.9	25.6	4.2	2.6	4.6
Materials, crude and intermediate	46.0	28.2	2.7	1.6	1.3
Finished goods:					
Consumer nonfood	17.5	20.5	3.8	4.1	5.6
Producer	8.6	22.6	11.8	5.1	3.7
Consumer foods	13.4	13.0	-12.9	23.7	11.4
	Relative importance to Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to Apr. 1975	Apr. to May 1975
CONSUMER PRICES					
All items	100.0	12.2	6.0	7.1	4.2
Food	24.8	12.2	- .2	4.2	6.3
Commodities (nonfood)	39.0	13.2	7.4	9.0	2.4
Services	36.2	11.3	8.0r	6.6	2.9
Addendum					
All items less food and energy ^{3/4/}	68.3	11.3	9.4	6.3	3.9
Petroleum products ^{3/}	4.4	22.8	-0.5	10.5	13.8
Gas and electricity	2.5	19.6	17.7	16.2	8.7

^{1/} Not compounded for one-month changes.

^{2/} Stage of processing components do not add to the total because they include some items found in farm and food products group.

^{3/} Confidential -- not for publication

^{4/} Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.
r = revised

Table 10

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

	Fiscal 1975e/		Fiscal 1976e/		Calendar Years		F.R.B. Staff Estimates				Half-Year 1976 Jan.-June	
	Adm. Est.	F.R. Board	Adm. Est.	F.R. Board	1974	1975	Calendar Quarters					
	5-30-75		5-30-75		Actual	F.R.B. e/	1975					
							I*	II	III	IV		
	Unadjusted data											
Federal Budget												
Surplus/deficit	-42.6	-45.0	-59.9	-69.4	-10.9	-71.7	-18.0	-13.5	-16.5	-23.7	-29.0	
Receipts	281.0	281.5	299.0	297.6	280.5	280.1	65.1	76.6	72.0	66.4	159.3	
Outlays	323.6	326.5	358.9	367.0	291.4	351.8	83.1	90.1	88.5	90.1	188.3	
Means of financing:												
Net borrowing from the public	50.8	51.2	74.0	80.2	11.8	81.6	19.4	17.0	17.4	27.8	35.0	
Decrease in cash operating balance	n.a.	1.6*	n.a.	1.6	4.5	-.1	-.7	-1.0*	2.7	-1.1	--	
Off-budget deficit ^{1/}	n.a.	-9.5	-14.2 ^{2/}	-14.2	-3.6	-12.7	-5.3	-2.5	-1.4	-3.5	-9.3	
Other ^{3/}	n.a.	1.8	n.a.	1.7	-1.7	2.9	4.6	--	-2.2	.5	3.3	
Cash operating balance, end of period	n.a.	7.6*	n.a.	6.0	5.9	6.0	6.6	7.6*	4.9	6.0	6.0	
Memo: Sponsored agency borrowing ^{4/}	n.a.	10.8	n.a.	n.e.	16.6	1.2	.1	-.4	.6	.9	n.e.	
National Income Sector												
							Seasonally adjusted annual rates					
Surplus/deficit	n.a.	-47.7 ^{5/}	n.a.	-66.5 ^{5/}	-8.1	-75.4	-54.4	-107.4	-70.7	-69.2	-61.2	
Receipts	n.a. ^{2/}	281.8 ^{5/}	n.a. ^{2/}	308.8 ^{5/}	291.1	281.6	284.1	248.0	291.0	303.2	322.3	
Expenditures	330.9 ^{2/}	329.5	371.4 ^{2/}	375.3	299.1	357.0	338.5	355.4	361.7	372.4	383.5	
High Employment surplus/deficit (NIA basis) ^{6/7/}	n.a.	3.8	n.a.	-7.4	19.1	-11.5	9.6	-37.0	-8.5	-10.1	-5.6	
* Actual	e--projected		n.e.--not estimated		n.a.--not available		p--preliminary					

^{1/} Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.

^{2/} Unpublished confidential O.M.B. estimate consistent with Mid-Session Review of the 1976 Budget, May 30, 1975.

^{3/} Checks issued less checks paid, accrued items, and other transactions.

^{4/} Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

^{5/} Quarterly average exceeds fiscal year total by \$.6 billion for fiscal 1975 and \$.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.

^{6/} Estimated by F.R. Board staff.

^{7/} The high-employment budget estimates now fully incorporate taxes on inventory profits beginning in 1973.

DOMESTIC FINANCIAL SITUATION

III-T-1
 SELECTED DOMESTIC FINANCIAL DATA
 (Dollar amounts in billions)

Indicator	Latest data		Net change from			
	Period	Level	Month ago	Three months ago	Year ago	
Monetary and credit aggregates						
			<u>SAAR (per cent)</u>			
Total reserves	June	34.9	10.5	1.4	1.2	
Reserves available (RPD's)	June	33.0	9.8	.8	1.5	
Money supply						
M1	June	294.0	17.8	11.0	5.0	
M2	June	647.4	19.0	13.4	8.4	
M3	June	1045.9	19.1	15.4	9.4	
Time and savings deposits						
(Less CDs)	June	353.4	20.0	15.4	11.4	
CDs (dollar change in billions)	June	84.1	-1.4	-5.7	2.8	
Savings flows (S&Ls + MSBs + credit unions)	June	398.5	19.0	18.5	11.1	
Bank credit (end of month)	June	703.5	.9	2.3	3.3	
Market yields and stock prices						
			<u>Percentage or index points</u>			
Federal funds	wk. endg.	7/2/75	6.31	1.07	.72	-7.24
Treasury bill (90 day)	"	7/2/75	5.94	.71	.36	-1.51
Commercial paper (90-119 day)	"	7/2/75	6.20	.77	.17	-5.75
New utility issue Aaa	"	7/4/75	9.67	.26	-.13	-
Municipal bonds (Bond Buyer)	1 day	7/3/75	6.96	-.09	.03	.32
FNMA auction yield (FHA/VA)		6/30/75	9.07	-.18	.23	-.47
Dividends/price ratio (Common stocks)	wk. endg.	7/2/75	3.95	-.03	.54	-.35
NYSE index (12/31/65=50)	end of day	7/7/75	50.03	.84	7.40	7.84
Credit demands						
			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			1975	1974	1975	1974
Business loans at commercial banks	June		-2.8	1.5	-7.1	19.1
Consumer instalment credit outstanding	May		-.1	1.3	2.8	15.3
Mortgage debt outst. (major holders)	April		3.7	5.5	11.6	17.1
Corporate bonds (public offerings)	June		4.1e	1.9	21.7e	11.7
Municipal long-term bonds (gross offerings)	June		3.0e	2.2	14.9e	13.2
Federally sponsored Agcy. (net borrowing)	June		.8e	2.8	-.1	5.6
U.S. Treasury (net cash borrowing)	July		8.0e	1.6	44.4e	-1.4
Total of above credits			16.7	16.8	88.2	80.6

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Most short-term interest rates rose substantially following the June FOMC meeting as the System moved to dampen rapid monetary growth and the Federal funds market tightened. By early July, the funds rate and rates on key Treasury bills had advanced by close to 100 basis points above their mid-June levels. Yields in long-term security markets also moved up, as expectations were altered by the perceived tightening of monetary policy and the continued heavy calendar of corporate and municipal bond issues. Average yields on home mortgages remained essentially unchanged as inflows of funds to nonbank thrift institutions continued strong.

Equity markets extended the strong rebound that began early this year. With average prices on major stock exchanges up more than 50 per cent from last year's lows, flotations of new stock issues in June reached their largest monthly volume since the fall of 1973. Short-term credit demands of businesses remained depressed as the equity and long-term debt financing of corporations undertaken in large part to fund short-term borrowing continued to be substantial.

Short-term securities markets. Treasury bill rates have advanced around 90 to 110 basis points since the June FOMC meeting, and private short-term rates have risen nearly as much. As Desk operations led to the rise of the Federal funds rate and data were released showing an acceleration in M_1 growth, market participants

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

	Aug. FOMC Aug. 20	Apr. FOMC Apr. 15	May FOMC May 20	June FOMC June 17	June 24	July 1	July 8
<u>Short-term</u>							
Federal funds ^{1/}	12.23	5.44	5.13	5.31	5.72	6.31	6.17 ^{4/}
Treasury bills							
3-month	9.05	5.48	5.11	5.03	5.75	6.02	6.06
6-month	9.13	5.80	5.37	5.36	6.06	6.31	6.35
1-year	8.86	6.28	5.70	5.61	6.29	6.46	6.42
Commercial paper							
1-month	12.00	6.00	5.25	5.25	5.63	6.13	6.25
3-month	11.88	6.13	5.50	5.50	5.88	6.25	6.25
Large neg. CD's ^{2/}							
3-months	12.35	6.15	5.60	5.50	6.00	6.15	6.50
6-months	12.15	6.70	6.10	5.88	6.38	6.55	7.00
Federal agencies							
1-year	9.65	7.05	6.44	6.20	6.78	6.99	n.a.
Bank prime rate	12.00	7.50	7.25	7.00	7.00	7.00	7.00
<u>Long-term</u>							
Corporate ^{1/}							
New AAA ^{1/}							
Recently offered ^{3/}	10.10	9.65	9.54	8.95	9.07	9.37	9.67p
	10.02	9.60	9.61	9.22	9.14	9.41	9.45p
Municipal							
(Bond Buyer) ^{3/}	6.61	7.03	6.88	6.80	6.93	7.00	6.96
U.S. Treasury							
(20-year constant maturity)	8.58	8.29	8.14	7.96	8.04	8.12	8.19p
<u>Stock prices</u>							
Dow-Jones	726.85	815.08	830.49	828.61	869.06	877.42	857.79
N.Y.S.E.	39.32	45.66	47.80	48.27	50.28	50.68	49.96

^{1/} Weekly average^{2/} Highest quoted new issues.^{3/} One day quotes for preceding Thursday.^{4/} Average for first 6 days of statement week ending July 9.

began to reevaluate the near-term course of monetary policy. The rise in Treasury bill rates was given impetus by the technical position which had developed in that market in the first part of June; bill rates had been pushed down as dealers built up inventories in anticipation of the large seasonal decline in the supply of bills during the second half of June. Thus, bill rates proved particularly vulnerable to the tightening of the funds market.

Commercial paper rates rose in sympathy with developments in the Federal funds and bill markets, although total commercial paper outstanding continued to contract. Outstanding directly-issued finance company paper fell sharply as several major issuers turned to long-term financing in late June and early July, but outstanding paper of nonfinancial firms was unchanged in June. With short-term credit demands weak and inflows of other deposits unusually large, banks permitted negotiable CD's to continue running off, further reducing the supply of private short-term debt instruments.

Long-term securities markets. Interest rates on short- and intermediate-term Treasury coupon issues have risen 50 to 75 basis points since mid-June while long-term yields have advanced between 10 and 15 basis points. In addition to the tightening of the Federal funds market, yields on Treasury coupon issues--particularly those with intermediate terms--were pushed higher by the Treasury's announcement on June 18 that it would need to raise \$9.4 billion of

new money before the mid-August refunding. While a major share would be raised through additions to weekly and monthly bill auctions, the Treasury indicated that it also would tap the coupon market by selling \$1.75 billion of 4-year notes on June 25 and \$1.5 billion of 2-year notes in late July.

Occurring against a backdrop of what is likely to be the largest volume of new issues in any month on record, changing expectations in financial markets drove up corporate bond yields by 30 to 60 basis points between mid-June and early July. Industrial corporations continued to offer bonds in large volume, but the proportion of total offerings accounted for by finance companies and bank holding companies increased. Highly rated issues (Aa or Aaa) accounted for a larger share of total corporate bond financing in June than in any other month this year.

Offerings of new issues in the municipal bond market also were at a record pace in June, when Massachusetts floated a near record size issue--\$450 million--to help finance its current deficit. Anticipation of the early July offering by the New York Municipal Assistance Corporation of \$1 billion--the largest tax exempt bond offering on record--also placed upward pressure on both corporate and municipal bond yields late in the month. In addition, downgradings by rating agencies of Massachusetts and New Jersey general obligation bonds, as well as a number of "moral obligation" bonds, unsettled

SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1975					
	QI	QII ^{e/}	May ^{e/}	June ^{e/}	July ^{f/}	Aug. ^{f/}
	<u>Gross Offerings</u>					
Corporate securities						
Total	5,083	5,325	5,335	5,910	4,400	4,300
Publicly-offered bonds	3,643	3,583	3,700	4,100	3,100	3,000
Privately-placed bonds	737	717	650	750	600	600
Stocks	703	1,025	985	1,060	700	700
Foreign securities ^{1/}	418	392	500	450	600	300
State and local government securities						
Long-term	2,255	2,720	2,786	3,000	3,500	3,100
Short-term	2,554	3,089	3,444	2,700	2,600	2,600
	<u>Net Offerings</u>					
U.S. Treasury ^{2/}	6,484	5,647	8,556 ^{3/}	900	8,000	7,800
Sponsored Federal agencies	40	-78	-1,610	571	550	-354

^{1/} Includes issues of foreign private and official institutions.

^{2/} Total Treasury issues, including Federal Financing Bank.

^{3/} Actual.

^{e/} Estimated.

^{f/} Forecasted.

the tax-exempt market. Reflecting these pressures, the Bond Buyer index moved up to 6.97 per cent, close to its all-time high of 7.15 per cent reached last December.

Stock prices have advanced about 3.5 per cent since mid-June, and the New York Stock Exchange composite and other major stock price indices reached new 1975 highs. Though recently backing off their peaks for the year, most indices still stand more than 50 per cent above their 1974 lows. The vigor of equity markets continued to stimulate new stock flotations, and the estimated June volume of \$1.1 billion represents the largest monthly total since November 1973.

Monetary aggregates. The monetary aggregates rose at record rates in June (see table). At both banks and thrift institutions, a high proportion of the inflows of interest-bearing deposits were in passbook accounts.

In the staff's view, the cash disbursements of the Treasury in the form of rebates, refunds, and supplementary benefits to Social Security recipients were an important factor in the rapid growth of all of the monetary aggregates in June. Nevertheless, monthly fluctuations in M_1 often cannot be fully explained, and the June growth must be viewed as extraordinary. However, it appears likely that the recovery in some key sectors of the economy along with the lagged impact of previous declines in market interest rates were tending to increase the public's demand for money.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1 9 7 5						Twelve months ending June 1975
	H1	QI	QII	Apr.	May	June p	
	<u>Per cent at annual rates</u>						
M ₁	6.8	2.4	11.0	4.2	10.9	17.8	5.0
M ₂	11.1	8.4	13.4	7.7	13.1	19.0	8.4
M ₃ ^{1/}	13.1	10.4	15.4	11.8	14.5	19.1	9.4
Adjusted bank credit proxy	5.3	3.1	7.5	5.1	2.4	15.1	5.5
Time and savings deposits at commercial banks:							
a. Total	8.6	10.1	7.0	4.7	3.9	12.2	9.8
b. Other than large CD's	14.8	13.6	15.4	10.6	15.0	20.0	11.4
Deposits at nonbank thrift institutions: ^{2/}							
a. Savings and loans	18.9	17.0	19.9	17.2	20.2	21.5	12.9
b. Mutual savings banks	13.1	10.5	15.4	10.3	15.9	19.3	8.0
c. Credit unions	18.2	18.9	15.2	20.8	16.3	8.1	14.5
	<u>Billions of dollars</u> ^{3/}						
Memoranda:							
a. U.S. Government demand deposits	.3	- .4	1.0	1.4	- -	1.7	- .1
b. Negotiable CD's	-1.0	- .2	-1.9	-1.4	-2.9	-1.4	.2
c. Nondeposit sources of funds	- .2	- .6	.2	.2	.7	- .4	- .1

^{1/} M₃ is defined as M₂ plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.

^{2/} Based on month-end series.

^{3/} Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.

p - Preliminary

With the special Federal cash disbursements now completed, the unwinding of the stimulus to M_1 holdings from this source could moderate the increase in the aggregates in the current month, temporarily obscuring the underlying increase in demands for money. Indeed, partial data for late June and early July indicate that M_1 growth is decelerating, while inflows to time deposits at banks are increasing. On the other hand, thrift institutions deposit inflows were sharply reduced after mid-month when the special disbursements ended.

Loan developments. With business inventory liquidation now estimated to have continued very large in the second quarter and with heavy stock and bond flotations continuing, short-term credit demands of business remain depressed. Business borrowing at banks, therefore, fell sharply further in June. Banks continued to use available funds to add to their liquidity through large acquisitions of Treasury securities. In addition, after six months of slow or no growth, banks purchased a sizable volume of other securities, which at large banks were principally municipal securities.

Mortgage commitment and lending activity at the nonbank thrift institutions continued to increase through May. At S&L's, mortgage commitments outstanding had recovered by the end of May to levels of mid-1974, and the volume of mortgage loans made was the largest in two years. Cash inflows during June, however, still

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

	<u>1974</u>	<u>1975</u>		<u>1975</u>		
	QIV	QI	QII	Apr.	May	June
Total loans and investments ^{2/}	-1.0	4.4	2.3	2.4	3.8	.9
U.S. Treasury securities	-27.5	82.1	97.4	118.6	80.0	73.3
Other securities	9.3	-1.4	4.9	-2.6	5.2	12.0
Total loans ^{2/}	-1.1	-1.5	-9.5	-9.8	-6.5	-12.4
Business loans ^{2/}	3.5	-4.5	-10.9	-4.6	-9.9	-18.6
Real estate loans	5.9	3.7	1.5	2.7	.9	.9
Consumer loans	-3.3	-6.7	n.a.	-7.3	-8.8	n.a.
Memo:						
Business loans plus nonfinancial commercial paper ^{3/}	4.3	-2.6	-12.6	-3.6	-17.1	-17.3

^{1/} Last Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

^{2/} Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, non consolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated non-bank subsidiaries of holding companies.

^{3/} Nonfinancial commercial paper is measured from end-of-month to end-of-month.

n.a. - Not available.

permitted S&L's to reduce outstanding FHLBank advances somewhat further and make another substantial addition to liquid asset holdings. With net deposit flows remaining strong, field reports and trade sources indicated an increased willingness on the part of the thrifts to make construction loans, particularly for single-family properties.

In the primary market, average rates on new home mortgage commitments have changed little since mid-May. Non-rate terms on new commitments at S&L's, which had been easing since last fall, also apparently changed little in May. However, the proportion of S&L's offering high loan-to-value ratio loans (90 per cent and above) has recovered to levels that prevailed in the spring of 1974.

Demand for FNMA's secondary-market commitments to purchase home mortgages strengthened in the most recent auction on June 30, and auction rates have stabilized after declining moderately in the first half of June. A decline in the price of GNMA-guaranteed mortgage-backed securities--a major marketing alternative to FNMA for originators of FHA/VA mortgages--and a renewed desire among originators to secure FNMA coverage in light of the general increase in market interest rates appear to have been largely responsible for the increased demand for FNMA commitments. Had not FNMA increased its acceptance of offerings, auction rates would have risen in late June.

CONVENTIONAL HOME MORTGAGES AT SELECTED S&L's

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Rate spread ^{1/} (basis points)	Federal Home Loan Bank districts with funds in short supply
1974--High	10.03 (9/27, 10/18)	--	97 (11/15)	12 (May, July-Nov.)
Low	8.40 (3/15, 3/22)	--	-106 (7/12)	0 (Feb.-Mar.)
1975--Jan.	9.29	-30	29	3
Feb.	9.02	-27	8	1
Mar.	8.85	-17	-75	0
Apr.	8.83	- 2	-83	0
May	8.90	+ 7	-72	0
June	8.91	+ 1	-46	0
June 6	8.90	0	-51	0
13	8.91	+ 1	- 4	0
20	8.89	- 2	-18	0
27	8.91	+ 2	-46	0
July 4	8.89	-2	-78	0

^{1/} Average mortgage return, before deducting servicing costs, minus average yield on new issues of Aaa utility bonds paying interest semi-annually and with 5-year call protection.

FNMA AUCTION RESULTS-HOME MORTGAGE COMMITMENTS

Date of auction	Government-underwritten				Conventional			
	Amount (In \$ millions)		Average yield	Amount (In \$ millions)		Average yield		
	Offered	Accepted		Offered	Accepted			
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/8)	63 (4/8)	10.71 (9/9)		
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)		
1975--High	552 (4/7)	321 (3/24)	9.37 (1/13)	100 (4/7)	51 (4/21)	9.50 (1/13)		
Low	25 (2/10)	18 (2/10)	8.78 (3/10)	11 (1/27)	9 (2/10, 2/24)	8.96 (3/10)		
1975--May	5	525.5	280.4	9.29	69.8	43.9	9.43	
	19	165.6	115.0	9.25	46.4	38.4	9.41	
June	2	172.5	80.4	9.14	51.2	27.1	9.26	
	16	73.4	38.6	9.06	28.5	15.7	9.21	
	30	358.7	246.9	9.07	67.5	47.3	9.18	

NOTE: Average secondary market yields are gross before deduction of fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yields for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

Total consumer credit outstanding rose in May, on a seasonally adjusted basis, after declining in five of the six preceding months. The small advance reflected both the improved level of automobile sales and higher retail sales for some other types of consumer durables and nondurable goods. Automobile credit extensions reached the largest volume since last September--with the exception of February, when industry-wide rebate programs bolstered new car sales.

Repayments of consumer instalment credit, buttressed by tax rebates, edged up to a new high during May. Trade associations data just released for the first quarter indicate that delinquency rates on consumer instalment loans at commercial banks increased further during that period. On a weighted average basis, the over-all level of delinquencies was 2.94 per cent at the end of the quarter, compared to 2.64 per cent for all of 1974.

INTERNATIONAL DEVELOPMENTS

U.S. International Transactions
(in millions of dollars; seasonally adjusted)

	1974			1975		
	Year	Q-3	Q-4	Q-1	Apr.*	May*
<u>Goods and services, net</u> ^{1/}	3,574	-261	919	3,344		
Trade balance	-5,528	-2,341	-1,450	1,841	426	968
Exports	98,268	25,026	26,585	27,222	8,633	8,174
Imports	103,796	27,367	28,035	25,381	8,207	7,206
Net service transactions	9,102	2,080	2,369	1,503		
<u>Remittances and pensions</u>	-1,721	-457	-439	-458		
<u>Gov't grants and capital, net</u>	-4,342	-725	-1,509	-1,235		
<u>Bank-reported private capital, net change</u>	-2,534	1,954	538	-5,150	311	-2,807
<u>Claims on foreigners (inc. -)</u>	-19,325	-2,262	-4,187	-3,564	-783	-2,491
Liquid	-5,980	-732	-1,599	-5,059	309	-1,265
Other	-13,345	-1,530	-2,588	-1,495	-1,092	-1,226
<u>Liabilities to foreigners (inc. +)</u>	16,791	4,216	4,725	-1,586	1,094	-316
Liquid liabilities to:	16,782	4,256	4,838	-1,542	1,227	-353
Commercial banks abroad	12,636	3,150	2,773	-2,619	1,512	-728
(of which liab. to branches) ^{2/}	(2,349)	(-503)	(217)	(-1,077)	(249)	(517)
Other private foreigners	2,851	887	757	230	-193	218
Int'l & regional organizations	1,295	219	1,308	847	-92	157
Long-term liabilities	9	-40	-113	-44	-133	37
<u>Private transactions in securities, net</u>	-1,318	-100	-1,389	-1,429	50	-94
U.S. purchases (-) of foreign securities	-1,990	-304	-726	-2,033	-160	-185
(of which: New bond issues)	(-2,373)	(-416)	(-807)	(-2,108)	(-246)	(-235)
Foreign purchases (+) of U.S. securities	672	204	-663	604	210	91
Stocks	544	118	-13	958	260	378
Bonds	130	86	-650	-354	-50	-287
<u>U.S. direct investment abroad, (inc. -)</u>	-7,268	-1,828	-3,123	-937		
<u>Foreign direct investment in U.S., (inc. +)</u>	2,224	-1	-653	326		
<u>Nonbank-reported: liquid claims, (inc. -)</u>	-133	504	-369	307		
: other claims, (inc. -)	-3,004	-392	-311	-68		
: liabilities, (inc. +)	1,316	272	302	233		
<u>Changes in liab. to foreign official agencies</u>	9,810	884	4,718	3,549	-171	678
OPEC countries (inc. +) ^{2/3/}	9,947	3,934	2,656	269	736	424 p/
Other countries (inc. +)	-137	-3,050	2,062	3,280	-907	254
<u>Changes in U.S. reserve assets (inc. -)</u>	-1,434	-1,003	137	-326	30	-78
Gold	--	--	--	--	--	--
Special drawing rights	-172	-123	-20	-5	-3	-35
Reserve position in the IMF	-1,265	-728	-84	-307	16	-41
Convertible currencies	3	-152	241	-14	17	-2
<u>Errors and omissions</u>	4,833	1,153	1,179	1,844		
<u>Memo:</u>						
Official settlements balance, S.A.		119	-4,855	-3,223		
N.S.A.	-8,374	-1,683	-4,049	-2,188	141	-600
O/S bal. excluding OPEC, S.A.		4,053	-2,199	-2,954		
N.S.A.	1,573	2,251	-1,393	-1,919	877	-176

*/ Not seasonally adjusted (except for merchandise trade data).

^{1/} Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluded from GNP net exports).

^{2/} Not seasonally adjusted.

^{3/} Partly estimated.

p = Preliminary.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. After holding steady for nearly three months, the value of the dollar on a weighted-average basis has risen more than 2-1/4 per cent in the past two weeks. The major factor in the dollar's advance has been the tightening of money market conditions in the United States, accompanied by higher Euro-dollar rates. Interest rates in most major foreign countries have held relatively steady, while interest rates in England and Germany have actually declined in the past two weeks. The dollar has also been buoyed by the growing expectation that the U.S. recession has bottomed out, while the expected upturn abroad, particularly in Germany, has yet to materialize.

Major central banks have sold nearly \$350 million, net, in the past 2-1/2 weeks, compared with only minimal net intervention in early and mid-June. The major sellers of dollars have been Italy, Japan, and Canada, together with the United States, which has been selling dollars to pay off swaps. Each has sold over \$100 million. The Swiss National Bank was the only major purchaser of dollars, intervening on only two occasions, but buying over \$100 million each time, apparently to keep the Swiss franc in line with the German mark.

Net sales of dollars by the Bank of France during the past 2-1/2 weeks have been very small. Since the beginning of July, however, the Bank of France has sold over \$240 million as the French franc came under pressure, perhaps because of uncertainties about whether the French will

change the par value of the French franc before rejoining the snake on July 10. These sales of dollars have only slightly exceeded the purchases of dollars by the Bank of France in late June when the French franc was rising sharply.

The System continued its practice of acquiring small amounts of foreign exchange for swap repayment on days when the dollar was strengthening. With the purchases made from mid-June through early July, the System was able to fully repay the swap drawing in guilders and French francs and to reduce the debt in German marks by \$150 million. Outstanding commitments in German marks now total \$321 million.

The Bank of England has not intervened in July as sterling has stabilized in the past few days, after dropping nearly 5 per cent on a weighted-average basis in June. This stabilizing in the sterling rate followed Chancellor Healey's statement that the next round of wage increases would be limited to 10 per cent, by statute if necessary.

In the gold market, prices temporarily receded following the Treasury's auction of nearly 500,000 ounces at a price of \$165.05, very near the London price at the time. By Wednesday, however, the London price had returned to \$164.75.

Euro-currency market. Rates on Euro-dollar deposits have risen sharply in the past four weeks reflecting the rise in short-term interest rates in the United States. The 3-month deposit rate jumped from an average of 5.77 per cent in the week of June 18 to a range of about 7 to 7-1/2 per cent in recent days. This was in fact well in excess of

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

Average for month or week ending Wednesday	(1) Over-night Euro-\$	(2) Federal Funds	(3) Differ- ential (1)-(2)(*)	(4) 3-month Euro-\$ Deposit	(5) 60-89 day CD rate	(6) Differ- ential (4)-(5)(*)
1975-Mar.	5.77	5.54	0.23 (0.73)	6.85	5.86	0.99 (1.22)
Apr.	5.35	5.49	-0.14 (0.17)	7.04	5.85	1.19 (1.22)
May	5.20	5.22	-0.02 (0.20)	7.30	5.41	1.89 (1.85)
June	5.55	5.55	0.00 (0.23)	6.10	5.35	0.75 (0.66)
May 28	5.04	5.14	-0.10 (0.11)	5.98	5.25	0.73 (0.64)
June 4	5.49	5.24	0.25 (0.48)	6.01	5.25	0.76 (0.68)
11	5.37	5.15	0.22 (0.44)	5.85	5.25	0.76 (0.50)
18	5.23	5.31	-0.08 (0.14)	5.77	5.25	0.52 (0.42)
25	5.41	5.72	-0.31 (0.08)	6.29	5.63	0.66 (0.56)
July 2	6.32	6.31	0.01 (0.27)	6.84	5.88	0.96 (0.87)
9 ^{p/}	5.72	5.10	-0.38 (-0.14)	7.45	5.88	1.57 (1.50)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary.

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1975; Friday dates)

	June 6	June 20	July 3	July 8 ^{d/}
1) 3-mo. Euro-\$ loan ^{a/}	6.44	7.19	8.44	8.63
2) 90-119 day com'l. paper ^{b/}	5.63	5.75	6.38	6.38
3) U.S. bank loan:				
a) predominant prime rate	7.25	7.00	7.00	7.00
b) with 15% comp. bal's. ^{c/}	8.53	8.24	8.24	8.24
c) with 20% comp. bal's. ^{c/}	9.06	8.75	8.75	8.75
Differentials:				
(1) - (2)	0.81	1.44	2.06	2.25
(1) - (3a)	-0.81	0.19	1.44	1.63
(1) - (3b)	-2.09	-1.05	0.24	0.39
(1) - (3c)	-2.62	-1.56	-0.31	-0.12

a/ 1-1/8 per cent over deposit bid rate.

b/ offer rate plus 1/8 per cent.

c/ prime rate adjusted for compensating balances.

d/ Tuesday.

the rise in the rate on U.S. 60-89 day CD's, and the excess of the former over the latter widened considerably to about 1-1/2 per cent. The overnight Euro-dollar rate has risen by somewhat less than the U.S. Federal funds rate.

U.S. banks' gross liabilities to their foreign branches dropped from an average of \$3.1 billion in the week of June 4 to \$1.9 billion in the week of July 2, despite the tightening in the U.S. money market. This may have occurred partly because of quarter-end pressures in foreign money markets.

The cost of short-term Euro-dollar loans has risen substantially more than the cost of commercial paper borrowing in the United States in the past four weeks. And the rise in the Euro-dollar loan rate was in contrast with the reduction in the U.S. prime rate (by 1/4 per cent in the second week of June). Thus, between June 6 and July 8 the Euro-dollar loan rate rose 1-3/4 to 2 per cent relative to effective costs of U.S. bank loans to prime borrowers, as seen in the accompanying table.

Publicized medium-term Euro-currency loans completed in May rose further to \$1.8 billion, up from \$1.6 billion in April and a monthly rate of \$0.9 billion in the first quarter, according to World Bank compilations. Both developed and developing countries stepped up their borrowing in May. While spreads between deposit and lending rates remain high, with 1-3/8 per cent about the minimum, they have begun to narrow slightly for a few borrowers. Lending banks remain more careful and quality-conscious than prior to last summer, but weak loan demand in the United States has increased the willingness of U.S. banks to lend

in this market (through their foreign branches). Italy's credit standing has improved, and IMI is reportedly negotiating the first Euro-currency loan to an Italian borrower since April 1974.

Oil-exporting countries are coming to the market for large amounts. Algeria borrowed \$100 million in June and is close to completing another loan of \$500 million or more for 5-7 years, while Iraq is negotiating for \$500 million (its first Euro-currency credit) and Oman for \$75 million, both for five years. These \$500 million credits are the largest individual loans since early 1974. The Indonesian Government signed two agreements in June totalling \$575 million for five years; it reportedly will seek to borrow \$2 billion abroad (from various sources) in the 12 months through March 1976, mostly to fund maturing Pertamina debts.

U.S. International Transactions. Data through May on U.S. international transactions indicate (1) continuation for the fourth successive month of a surplus on U.S. merchandise trade accompanied by declining volumes of both exports and imports, (2) resumption in May of net capital outflows reported by banks, and (3) relatively small increases in OPEC holdings of U.S. assets in April and May.

U.S. Merchandise Trade. From April to May U.S. exports and imports declined sharply in all four major categories (see table), reflecting primarily the decline in economic activity here and abroad. For April and May combined the \$8.4 billion surplus on total trade was above the surplus for the first quarter.

The volume of U.S. imports in the first five months of 1975 was 16 percent below the average rate in the second half of 1974; imports of fuels and lubricants were down 11 percent. For the same period, the volume of U.S. exports declined over 3 percent, and exports of non-agricultural goods dropped 5 percent. Reflecting primarily the greater depth of the U.S. recession, the decline in the volume of U.S. imports has probably been steeper than that in the rest of the industrialized countries, while the drop in U.S. exports has been somewhat smaller.

The value of non-fuel imports declined over 12 percent in April-May from the rate in the first quarter and 20 percent from the fourth quarter of 1974. A large portion of the recent drop in non-fuel imports has been in industrial supplies, which have declined by about one-third

U.S. MERCHANDISE TRADE, BALANCE OF PAYMENTS BASIS
(billions of dollars, seasonally adjusted annual rates)

	1974	1974				1975			
	Year	1Q	2Q	3Q	4Q	1Q	April & May	April	May
<u>EXPORTS</u>	<u>98.3</u>	<u>89.8</u>	<u>96.8</u>	<u>100.1</u>	<u>106.3</u>	<u>108.9</u>	<u>100.8</u>	<u>103.6</u>	<u>98.1</u>
Agriculture	22.4	23.2	22.9	21.0	22.5	25.1	19.4	21.0	17.8
Nonagriculture	75.9	66.6	73.9	79.1	83.8	83.8	81.4	82.5	80.3
(Machinery)	(23.8)	(20.7)	(22.7)	(25.6)	(26.6)	(27.3)	(28.5)	(29.1)	(28.0)
(Industrial supp.)	(26.8)	(23.0)	(26.6)	(28.4)	(29.0)	(29.7)	(26.4)	(26.6)	(26.2)
<u>IMPORTS</u>	<u>103.8</u>	<u>90.6</u>	<u>103.0</u>	<u>109.5</u>	<u>112.1</u>	<u>101.5</u>	<u>92.5</u>	<u>98.5</u>	<u>86.5</u>
Fuels	27.4	20.0	28.4	31.1	31.0	27.4	28.0	31.1	24.9
Nonfuels	76.4	70.6	74.6	78.4	81.2	74.1	64.5	67.4	61.5
(Industrial supp.)	(25.8)	(21.4)	(24.0)	(27.6)	(29.4)	(27.9)	(20.1)	(22.3)	(18.0)
<u>TOTAL BALANCE</u>	<u>-5.5</u>	<u>-0.8</u>	<u>-6.1</u>	<u>-9.4</u>	<u>-5.8</u>	<u>+7.4</u>	<u>+8.4</u>	<u>+5.1</u>	<u>+11.6</u>
BALANCE excluding fuel imports & agric. exports	-0.5	-4.0	-0.7	+0.7	+2.6	+9.9	+16.9	+15.1	+18.8

Note: Details may not add to totals because of rounding.

in volume and also in value since the fourth quarter of 1974. This contraction appears to be related to the U.S. inventory cycle. Although fluctuations in rates of inventory accumulations have not exhibited a systematic relationship with U.S. imports of industrial supplies in the past, the recent pattern is remarkably close to the positive association during the inventory liquidation experience of the 1957-58 recession. Imports of consumer goods, especially durables, have also declined dramatically over the first five months of 1975, probably again reflecting the U.S. inventory liquidation.

The irregular month-to-month pattern of fuel imports continued in May. Recorded imports rose sharply in April, possibly in anticipation of the imposition of the second \$1 per barrel increase in the import licensing fee that was expected on May 1 but was postponed to June 1. April-May imports were at about the same average annual rate as in the first quarter.

The value of U.S. agricultural exports dropped in May for the fourth successive month. Most of the decline since the peak in January reflects a lower volume of shipments, but the average unit value of these commodities has also dropped 9 percent. Foreign buyers have cancelled outstanding orders in anticipation of improved supplies and lower prices later this year. Complaints about a deterioration in the quality of U.S. grains have often accompanied these cancellations.

U.S. exports of non-agricultural products declined 3 percent in April-May from the rate in the first quarter of 1975. The average unit value of these exports was essentially unchanged in April-May from the average for the first quarter. As in the case of non-fuel imports, industrial supplies -- about one third of non-agricultural exports -- account for a large portion of the decline in non-agricultural exports; the April-May volume of these exports was about 7 percent below the rate in the fourth quarter. Exports of machinery continued above the rate in fourth quarter of 1974 and the first quarter of 1975, and new export orders for machinery in April-May were about 2 percent below their average for the first quarter.

The pattern of U.S. trade with the non-petroleum-exporting developing countries is beginning to reflect their sharply deteriorating payments positions; these countries's share in U.S. exports is about 25 percent, while their share in U.S. imports is about 15 percent. In the first quarter of 1975 U.S. exports to these countries were 8 percent above the rate in the fourth quarter of 1974 with a sharp bulge in January, while U.S. imports from them were 16 percent lower. In April-May, U.S. exports to these countries declined 5 percent from the first quarter rate, and U.S. imports were unchanged.

U.S. International Capital Transactions. In May the net outflow of private capital through banks and transactions in securities was about \$3 billion; in April these accounts showed a small inflow of \$350 million, and in the first quarter the average monthly rate of outflow was \$2 billion. U.S. liabilities to foreign official agencies increased by about \$700 million in May, compared with a small reduction in April and average monthly increases of \$1.2 billion in the first quarter.

Bank-reported private capital transactions in May showed a net outflow (increase in net claims) of \$2.8 billion, compared with an inflow in April of \$.3 billion. The average April-May net outflow of \$1.2 billion was somewhat less than the average monthly rate of \$1.7 billion in the first quarter.

The \$2.5 billion increase in gross claims on foreigners reported by banks in May was substantially above the \$.8 billion reported in April.

This latter figure was, however, influenced by a reflow following the Easter holiday at the end of March, which was also the end of the first quarter. Liquid claims declined \$.3 billion in April and rose \$1.3 billion in May. Changes in liquid claims on foreigners are particularly volatile; they reflect primarily changes in the volume of bank lending to foreigners through their branches particularly in the Bahamas. The increase in non-liquid claims on foreigners was about \$1 billion in each of the two months. The rise in these claims in May consisted in large part of loans to unrelated banks abroad, generally to banks in Euro-market centers. Acceptance credits continued to decline as the Japanese government encouraged a switch to yen financing. Weekly data for June suggest smaller increases in gross claims, but these data are often unreliable predictors. Bank-reported liquid liabilities to private foreigners declined by \$350 million in May, following a rise of \$1.2 billion in April. The rise in April was mainly the result of a rise in U.S. relative to foreign interest rates; this relationship stabilized in May. Most of the swing was in liabilities to commercial banks abroad.

Transactions in securities other than U.S. Treasury issues yielded a small net outflow in May. The April-May average net flow was negligible, compared with an average monthly net outflow of \$.5 billion in the first quarter.

Net U.S. purchases of foreign securities, mostly new Canadian bond issues, were about \$.2 billion in May, the same amount as in April

and about one-third the average monthly rate in the first quarter. Preliminary information for June indicates that new foreign bond issues rose to over \$.7 billion including some Canadian bond issues that had been postponed earlier and over \$200 million in Australian and French issues. The schedule for new foreign bond issues in July includes the second \$500 million issue by the IBRD this year.

Net foreign purchases of U.S. stocks amounted to almost \$.4 billion in May, compared with \$.2 billion in April. About \$100 million of the net purchases in May was by "other Asian" (primarily OPEC) countries. Another \$150 million came from the United Kingdom and Switzerland, possible channels for additional OPEC purchases. Net foreign sales of U.S. bonds, primarily by the IBRD, rose \$200 million in May.

In April and June, a small amount of offshore bond issues was floated by U.S. companies for the first time since the removal of U.S. capital controls in January 1974. The revival of interest in this market, primarily by second-rated U.S. companies, is ascribed to the clearing away late in 1974 by the Internal Revenue Service of uncertainties regarding the tax treatment of these issues, and to favorable interest rates. The latter factor may be partly the result of flows of OPEC funds to the Euro-bond market; such flows are reported to have risen since the first of the year.

U.S. liabilities to foreign official agencies rose by \$.7 billion in May following a decline of \$.2 billion in April. OPEC holdings increased

by about \$600 million on average in the two months, about 60 percent of average monthly increase in last three quarters of 1974, but well above the total increase of \$269 million in the first quarter of 1975. Holdings by other countries increased by \$250 million in May after declining by almost \$1 billion in April.

U.S. direct investment abroad in the first quarter of 1975, according to data recently released, increased only \$.9 billion, compared with over \$7 billion for all of 1974 and \$3 billion in the fourth quarter of 1974. Foreign direct investment inflows to the United States were about \$300 million, down somewhat from the average quarterly rate in 1974. As has been common in recent quarters, the data for the first quarter were distorted by changes in the pattern and timing of oil payments. The sharp drop in U.S. direct investment abroad in the first quarter was related to a delay in tax payments to Iran, which were actually made in the second quarter.

Trade Developments in Major Foreign Industrial Countries. The widespread weakness of economic activity this year has caused the most substantial decline in world trade volume in post-war history. For the major OECD countries combined, the steep decline in import volume has exceeded the drop in export volume. In the six major foreign industrial countries, the decline in final demand has led, generally, to sharp declines in import demand, which have been reinforced by sizable stock adjustments of both primary products and finished goods. The fact that the decline in export volume has been smaller is attributable to the continued relative strength of non-OECD import demand.

The decline in the volume of trade has been associated with significant changes in the trade balances of industrial countries. The shift from a \$3.7 billion trade deficit in 1974 for the six major foreign countries combined to a surplus of \$8.3 billion during the first five months of this year -- at a time when the U.S. balance shifted from deficit to surplus as well -- is partly explained by the reduction in the OPEC trade surplus with these countries. The oil deficit of the six countries combined is estimated to have declined \$2.4 billion from the fourth quarter of 1974 to the first quarter of this year, and preliminary data for April and May indicate the falloff may have continued. The decline in industrial countries' oil imports reflects principally weak economic activity, although mild weather, limited conservation efforts and a drawdown of inventories have also contributed somewhat to this result.

The counterpart of the shift in the combined balance of the six major industrial countries also appears in the larger trade deficits of other OECD countries. Generally, imports of the smaller countries declined, but because of slack demand in their principal markets, their exports declined more. A \$12-1/4 billion improvement is estimated to have occurred for the total OECD trade balance in the first half of this year over the second half of 1974, with the six major foreign industrial countries plus the U.S., Belgium and the Netherlands showing a gain larger than this, while the deficit of the smaller countries increased.

Finally, the combined trade deficit of non-oil developing countries appears to have increased in the early months of 1975. This is mainly due to the sizable falloff in demand for imports from these countries by the industrial countries. Moreover, some of the non-oil developing countries have maintained their import volumes. The effect of declining export volumes on the trade balances of the non-oil developing countries has been compounded by unfavorable terms of trade movements as world commodity prices have been dropping rather sharply this year. In addition, the total effect of the sharp drop in commodity prices has yet to show up in the export prices of these countries. Meanwhile, prices of goods imported by non-oil developing countries, reflecting the prices of manufactures in industrial countries as well as OPEC's pricing system, have risen, and are likely to continue to rise. Until now it appears that these countries have been able to finance imports in large part through foreign borrowing, with only a few showing a large rundown of reserves.

As shown in Table 1, the largest shifts in trade balances for the major foreign industrial countries in early 1975 compared with the second half of last year were registered by France, Italy and the United Kingdom. The positions of these three countries are, however, different as France and Italy began to deflate their economies in early 1974 in order to improve their trade balances. The very large swing towards surplus in the Japanese trade balance had already started in the first half of 1974. The decline in the deficits of Italy and Britain and the move to surplus in France were the result of a falloff in import volume, while export volume held steady, or declined only slightly. Each country benefited from increased sales to OPEC, with Italy and France increasing their market shares, and to East European countries. Because of the appreciation of the French franc against the dollar in recent months, the French trade figures, expressed in dollars in Table 1 may overstate the performance. As a result of the appreciation of the French franc, local-currency costs of dollar-denominated imports (e.g. oil) have declined, thus improving the French terms of trade.

The strong shift in the trade balance of the United Kingdom also results from both volume and price developments. Export volumes have remained fairly flat, while import volumes for the first five months of 1975 were running 9 per cent below the second half of 1974. In addition, Britain's terms of trade improved, with imports reflecting the fall in world commodity prices while prices of exported manufactures increased substantially, pushed up by a 25 per cent domestic inflation

rate. The depreciation of sterling since early 1972 has so far offset the erosion of price competitiveness resulting from the high inflation rate, and exports of manufactures and heavy machinery in particular are increasing.

In Japan, export volume has fallen in recent months, but owing to the low level of domestic activity and inventory adjustments, the decline in import volume for the first five months of 1975 over the second half of 1974 was considerably larger. Japanese exports of iron, steel, and machinery -- in particular to the Middle East, Asia and Eastern Europe -- have increased significantly and it is expected that with a still improving relative price performance, additional export market shares will be gained this year. The shift in the Japanese trade balance is due in part to the country's relative cyclical position, but in addition is also probably being influenced by the public authorities' efforts to restructure the economy, and again restore the external sector's contribution to real GNP growth.

The trade balances of Germany and Canada are being affected by less favorable cyclical developments. The recent decline in Canadian exports has resulted largely from particularly weak U.S. demand, but in addition, from special factors, especially labor problems at West Coast ports. Moreover, because the prices of primary commodities -- which represent about one-third of the value of total Canadian exports -- have been falling, Canada's terms of trade have been steadily weakening, thereby reinforcing the deterioration in the trade balance in real terms.

In Germany, the external sector, which contributed to growth last year, is likely to act as a drag on GNP growth this year. Part of the substantial rise in the German trade surplus last year occurred because the domestic downturn came earlier than in other major countries. However, as demand from Germany's main trading partners has weakened substantially, the German trade surplus has shrunk considerably back toward 1973 levels. Underlining the cyclical influences in the German trade picture is the fact that practically all the trade surplus decline occurred vis-à-vis major industrial countries, while the position vis-à-vis the developing countries, including OPEC, has improved.

Average export volume for the January-May period was down more than 13 per cent over the second half of 1974, while import volume decreased by about 2 per cent. Data for January-May indicate that in DM terms the monthly average trade surplus fell 12 per cent from the second half of last year. However, the German trade surplus remains high. During the first five months of this year, export prices averaged 1.1 per cent above the second half of last year, while import prices, which have fallen slowly for seven months in a row, averaged 3.4 per cent below second half 1974 levels.

There are many uncertainties in the trade outlook for the six major industrial countries. Demand is expected to pick up in most of the industrial countries in the second half of this year, which, in turn should lead to the start of a recovery in world trade. The combined trade surplus recorded by the six countries for the first five months of 1975

may fall as the upturn in activity leads to an increase in the volume of both oil and non-oil imports. The current rundown of inventories is generally expected to end sometime in the second half of 1975, leading again, perhaps, to higher import demand towards the end of the year. Besides these cyclical developments, any significant price increase for oil by OPEC will add to the import bill of these countries. At the same time, export demand from non-oil developing countries may fall off in the final quarters of 1975 as these countries adjust their external accounts to their current financial resources. Moreover, OPEC demand for imports from the industrial countries is not likely to continue to increase at recent rates.

Recent Policy Measures Abroad. During the past month, authorities in several countries announced policy steps aimed either at stimulating economic activity or at dealing with the inflation problem.

Monetary policy measures. The Bank of France on June 11 raised credit ceilings for the second half of the year and on the following day it announced a reduction of reserve requirements on resident demand deposits by 4 percentage points, to 11 per cent. The latter move is expected to release around 8 billion francs into the banking system. On July 3, the German central bank announced a 10 per cent reduction in banks' required reserves (retroactive to July 1). The resulting expansion of bank liquidity of some 4 billion DM is partly intended to offset seasonal contractionary influences on bank liquidity. However, it also reflects a continuation of previous Bundesbank moves to ease monetary conditions and encourage an upturn in economic activity that is taking longer to materialize than had been anticipated earlier.

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Table 1. Merchandise Trade of Major Foreign Industrial Countries^{1/}
(In billions of U.S. dollars at seasonally adjusted annual rates)^{2/}

		1973	1974	1974				1975	1975	
				I	II	III	IV	I	April	May
France	exports	36.6	46.6	42.2	45.9	48.7	49.7	54.7	54.6	52.5
	imports	35.2	50.1	44.9	50.2	53.1	52.0	53.0	50.0	47.2
	balance	1.5	-3.4	-2.7	-4.3	-4.4	-2.3	1.8	4.6	5.3
Germany	exports	67.7	89.4	81.4	90.3	91.8	94.1	92.8	93.0	82.7 ^{2/}
	imports	55.0	69.8	60.4	70.2	74.1	74.6	72.9	79.5	66.8 ^{2/}
	balance	12.7	19.6	20.9	20.1	17.7	19.5	19.9	13.6	15.9 ^{2/}
Italy ^{2/}	exports	22.2	30.1	26.3	28.6	33.1	32.3	34.3	34.3	30.6
	imports	27.9	40.9	37.1	40.2	44.8	41.5	36.5	35.0	31.4
	balance	-5.7	-10.9	-10.8	-11.6	-11.8	-9.2	-2.2	-0.7	-0.8
U.K.	exports	28.2	36.5	31.9	37.4	39.1	37.5	43.7	38.8	44.2
	imports	33.8	48.8	43.6	50.0	50.5	51.1	50.6	47.1	44.6
	balance	-5.6	-12.3	-11.7	-12.6	-11.4	-13.5	-6.9	-8.3	-0.4
Canada	exports	25.4	33.1	31.2	32.4	34.5	34.3	31.9	32.2	30.8
	imports	22.7	31.5	28.1	30.2	33.6	34.3	34.0	31.7	31.2
	balance	2.7	1.6	3.2	2.2	0.9	-0.1	-2.2	0.5	-0.4
Japan	exports	36.3	54.4	44.2	55.2	57.1	61.2	58.7	57.4	53.0
	imports	32.6	52.8	49.1	55.3	53.5	53.2	50.7	47.6	47.1
	balance	3.7	1.7	-4.8	-0.1	3.6	8.0	8.0	9.9	5.8
TOTAL BALANCE		9.3	-3.7	-5.9	-6.3	-5.4	2.4	18.4	19.6	25.4
U.S.	exports	71.4	98.3	89.8	96.8	100.1	106.3	108.9	103.6	98.1
	imports	-70.4	-103.8	-90.6	-103.0	-109.5	-112.1	-101.5	98.5	86.5
	balance	1.0	-5.5	-0.8	-6.1	-9.4	-5.8	7.4	5.1	11.6

Note: U.K., Canada, Japan and U.S. trade on a balance of payments basis; others on a customs basis. Imports cif for Germany and Italy; fas for the U.S.; otherwise fob. Details may not add to totals due to rounding.

^{1/} Data converted to dollars on the basis of average exchange rates as published in the Federal Reserve Bulletin.

^{2/} Data seasonally adjusted by FRB staff.

Other policy actions. The Japanese authorities announced further stimulative measures on June 16. The main elements include an expansion of low-interest housing loans, accelerated implementation of public works projects, and easing of credit terms for consumer durable goods purchases. The program is expected to generate close to \$6 billion in increased demand by the end of next March, equivalent to about 1 per cent of current GNP.

A new Canadian budget announced on June 23 represents basically no policy change from the overall expansionary stance of last November's budget. The main thrust of the new budget is to allow the expansionary forces already at work to have their full effect. The budget tries to strike a balance in dealing with inflation, recession and energy problems. Wage and price controls were considered, but were rejected as inappropriate under current circumstances. The budget contains several measures related to energy, including a rise in the price of domestically produced crude oil and a special 10 cents per gallon excise tax on gasoline.

On June 30, the temporary investment bonus introduced in Germany last December was allowed to lapse. The results of this fiscal incentive to stimulate investment expenditures were less than had been hoped for when this measure was introduced.

On July 1, the British Government announced its intention to restrict pay increases to 10 per cent over the next year in an effort to reduce the rate of price inflation below 10 per cent by the end of 1976. (Effective immediately, dividend increases were restricted to 10 per cent compared with a previous 12-1/2 per cent limit in effect as part of the British Price Code). The Government hopes that the unions

and industry will voluntarily accept the 10 per cent wage target. If no voluntary agreement is reached, the Government is prepared to introduce a statutory program. Details of the Government's plans are scheduled to be issued in a White Paper later this week.

On July 4, the Belgian Government announced a three-month extension of its price freeze that was instituted on April 30.