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CONFIDENTIAL (FR)

August 11, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	July	8-6-76	95.3	8.7	3.8	2.4
Unemployment rate (per cent)	July	8-6-76	7.8	7.5[1/]	7.5[1/]	8.7[1/]
Insured unemployment rate (%)	July	8-6-76	4.7	4.5[1/]	4.3[1/]	6.2[1/]
Nonfarm employment, payroll (mil.)	July	8-6-76	79.1	3.4	.8	3.2
Manufacturing	July	8-6-76	18.9	-.4	-.9	4.7
Nonmanufacturing	July	8-6-76	60.2	4.6	1.3	2.7
Private nonfarm:						
Average weekly hours (hours)	July	8-6-76	36.2	36.1[1/]	36.1[1/]	36.0[1/]
Hourly earnings ($)	July	8-6-76	4.86	4.84[1/]	4.78[1/]	4.54[1/]
Manufacturing:						
Average weekly hours (hours)	July	8-6-76	40.1	40.2[1/]	39.4[1/]	39.4[1/]
Unit labor cost (1967=100)	June	7-28-76	143.2	-5.8	4.2	.3
Industrial production (1967=100)	June	7-15-76	129.9	3.7	5.6	11.6
Consumer goods	June	7-15-76	136.6	2.6	1.5	9.9
Business equipment	June	7-15-76	136.6	7.1	7.8	7.9
Defense & space equipment	June	7-15-76	77.2	-3.1	-1.0	-5.4
Material	June	7-15-76	131.4	10.1	9.3	16.7
Consumer prices (1967=100)	June	7-21-76	170.1	5.7	6.0	5.9
Food	June	7-21-76	181.0	2.7	7.0	3.7
Commodities except food	June	7-21-76	156.0	5.4	5.5	5.1
Services	June	7-21-76	179.9	7.4	6.1	8.4
esale prices (1967=100)	June	7-9-76	182.4	5.2	6.6	5.4
ustrial commodities	June	7-9-76	180.5	6.0	3.6	6.4
rm products & foods & feeds	June	7-9-76	187.5	4.5	16.9	3.0
Personal income ($ billion)[2/]	June	7-20-76	1368.9	5.3	8.0	9.2
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	June	8-2-76	50.3	1.3	5.0	28.1
Capital goods industries	June	8-2-76	14.6	6.2	7.1	21.0
Nondefense	June	8-2-76	11.8	1.5	7.8	16.7
Defense	June	8-2-76	2.7	32.9	4.3	43.8
Inventories to sales ratio:						
Manufacturing and trade, total	May	8-10-76	1.46	1.45[1/]	1.47[1/]	1.62[1/]
Manufacturing	June	8-2-76	1.60	1.58[1/]	1.59[1/]	1.83[1/]
Trade	May	8-10-76	1.34	1.31[1/]	1.32[1/]	1.38[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	June	8-2-76	.835	.839[1/]	.846[1/]	.829[1/]
Retail sales, total ($ bil.)	July	8-10-76	53.2	-1.2	-.9	7.7
GAF	July	8-10-76	13.1	-1.4	.9	6.8
Auto sales, total (mil. units)[2/]	July	8-5-76	10.2	-3.2	-2.9	10.9
Domestic models	July	8-5-76	8.7	-4.5	-3.2	16.1
Foreign models	July	8-5-76	1.4	5.0	-1.0	-13.0
Housing starts, private (thous.)[2/]	June	7-19-76	1,492	4.3	5.3	38.1
Leading indicators (1967=100)	June	7-28-76	108.6	.3	1.4	9.3

1/ Actual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic expansion continued at a slow pace in July, suggesting a note of caution in the appraisal of third quarter prospects. Retail sales declined following the June rebound, and there was little change in industrial production. There was a solid gain in total employment following two months of virtual stability, but the labor force also rose strongly and the unemployment rate increased three-tenths to the January 1976 level. On the favorable side, prospects for business capital spending are showing continued--if belated--signs of improvement, and underlying price and labor cost pressures appear to have remained essentially unchanged.

Despite a pick-up in June, consumer markets do not yet appear to have regained the momentum that existed earlier in this recovery. Total sales in July are estimated to have declined about 1.2 per cent from June. Within durables, sales of the automotive group declined sharply and furniture and appliance sales were unchanged. Among nondurables, substantial declines were recorded in sales of general merchandise and food. Excluding autos and non-consumer items, sales were off 0.7 per cent for the month. After rising vigorously early in the year, with autos a major source of strength, retail sales have been nearly flat since March.

Sales of new domestic type autos were at an 8.7 million unit annual rate in July, off somewhat from June. Stocks of the now popular large and intermediate cars remain low and trade reports

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

	1975	1976		1976			
	IV	I	II	April	May	June	July[a]
Total sales	1.3	3.8	1.8	.7	-1.5	1.9	-1.2
(Real*)	2.2	1.2	n.a.	(.3)	-5.2	1.4	n.a.
Total, less auto and nonconsumption items	.4	2.4	1.2	- .6	- .6	1.7	- .7
GAF	3.2	1.4	- .1	-3.1	- .9	3.3	-1.4
Durable	3.7	7.5	3.3	3.7	-3.5	1.9	-1.8
Auto	4.9	9.1	4.4	5.3	-4.3	2.3	-3.3
Furniture and appliances	6.5	1.0	2.9	- .1	- .2	2.1	-.2
Nondurable	.3	2.0	1.1	- .8	- .6	1.8	- .9
Apparel	1.4	2.5	-3.1	-6.2	1.6	3.3	1.9
Food	-2.6	2.3	1.1	-1.0	1.6	.9	-1.8
General merchandise	2.8	1.2	.0	-3.1	-1.8	3.7	-2.7
Gasoline	- .6	2.9	- .4	- .2	-2.0	1.9	2.0

* Deflated by an unpublished Bureau of Economic Analysis price measure.
a Advanced.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1975	1976		1976					
	IV	I	II	Feb.	Mar.	Apr.	May	June	July
Total auto sales	9.2	10.1	10.3	10.1	10.4	10.5	10.0	10.5	10.2
Imports	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.4	1.4
Domestic	7.9	8.7	8.9	8.7	8.9	9.0	8.5	9.1	8.7

indicate that sales of these models would have been higher in July had the supply situation been better. Foreign car sales held at about the June level.

The latest Conference Board consumer survey, conducted in late May and early June, showed some improvement in confidence and buying plans. But the results of this bi-monthly survey, which have been moving quite closely with retail sales, do not show the optimism reflected earlier in the year.

Thus far, the recovery in consumption has kept pace with gains in disposable personal income; by 1976-II both series in real terms stood over 7 per cent above trough levels registered five quarters earlier. Despite the recent pause in consumption and a concomitant slowing of production, total income gains have been holding up fairly well. However, in June personal income grew only slightly as wage and salary disbursements fell for the first time in 16 months--reflecting the lack of employment growth and the drop in the average workweek in June. Employment and wage data for July indicate a probable rebound in wage and salary disbursements and transfer payments will rise steeply reflecting the 6.4 per cent cost of living increase in social security payments.

Following small changes in May and June, nonfarm payroll employment (adjusted for strike activity) rose by 280,000 in July--about as large as the peak rates of expansion from late 1975 through April 1976. The July gains occurred mainly outside of manufacturing--with State and local government, trade, services, and finance showing the largest increases. Excluding the effects of strike activity,

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

	Nov. 73-July 75	July 75-June 76	Apr. 76-May 76	May 76-June 76
Current Dollars				
Personal Income	8.3	10.2	9.6	5.4
Wage and Salary Disbursements	6.2	10.8	9.1	-1.6
Private	5.5	11.5	9.6	-3.7
Manufacturing	1.7	13.8	5.2	-1.5
Transfer Payments	24.4	6.0	-9.7	0.0
Addenda:				
Total Nonfarm	9.0	10.2	5.7	1.5
Constant Dollars*				
Personal Income	-1.9	4.7	2.1	-0.4
Wage and Salary Disbursements	-3.9	5.2	1.6	-7.0
Addenda:				
Total Nonfarm	-1.3	4.6	-1.6	-4.1

NOTE: November 1973 was the specific peak and July 1975 was the specific low for deflated wage and salary disbursements.

*Deflated by the CPI, seasonally adjusted.

nondurable manufacturing recovered almost all of the 25,000 jobs lost in May and June. The rubber strike continues, with 60,000 workers still off their jobs. Employment was off slightly in durable manufacturing.

Although total employment increased by just over 400,000 in July, the unemployment rate rose 0.3 percentage point to 7.8 per cent, as the civilian labor force grew substantially--by almost 700,000. While joblessness worsened most among adult women, unemployment of prime-age males (aged 25-54) also rose significantly. The seasonally adjusted level of initial claims for unemployment insurance benefits was stable at 400,000 weekly in July--a level somewhat above the first quarter average.

Industrial production is estimated from tentative data to have risen slightly in July, and for the past two months the index has risen on average only about a quarter of a percentage point. This is the weakest two month period for total output since the trough in March 1975. Continuing the trend evident throughout the second quarter, production of nondurable consumer goods showed little change in July, as the adjustment to high inventory stocks and weak sales continued. Gains in production of durable consumer goods are estimated to have weakened--as auto assemblies declined in July, reflecting model changeovers and producers' efforts to restore balance to dealers' stocks. With momentum contining in capital goods orders, there was some further growth in output of business equipment, but at a slower rate than in recent months.

Materials output apparently rose modestly in July and capacity utilization in this sector remained at about 81 per cent. The utilization rate for durable materials is still considerably below the 86 per cent operating rate in the nondurable materials sector.

NONFARM PAYROLL EMPLOYMENT
(Average monthly change in thousands; based on seasonally adjusted data)

	June 75- Nov. 75	Nov. 75- Apr. 76	Apr. 76- July 76	June 76 July 76
Total	246.2	277.8	52.7	221.0
(Strike Adjusted)	(238.8)	(279.6)	(95.8)	(281.0)
Construction	3.4	-2.0	-13.0	5.0
Manufacturing	76.4	98.2	-14.0	-7.0
(Strike Adjusted)	(80.0)	(98.2)	(11.3)	(22.0)
Durable	25.2	69.4	8.0	-26.0
Nondurable	51.2	28.8	-22.0	19.0
Trade	26.6	86.8	24.7	66.0
Services and Finance	72.6	71.0	29.3	52.0
Total Government	56.8	19.8	24.3	86.0
State and Local	52.2	26.0	28.0	92.0

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974	1975		1976		
	July	May	July	May	June	July
Total	5.5	8.9	8.7	7.3	7.5	7.8
Men, 20 years and older	3.6	7.2	7.1	5.6	6.0	6.1
Men 25 to 54	2.9	6.1	6.1	4.5	5.1	5.4
Women, 20 years and older	5.3	8.4	8.0	6.8	7.1	7.6
Women 25 to 54	4.6	7.9	7.5	6.4	6.7	7.3
Teenagers	16.9	20.3	20.5	18.5	18.4	18.1
Household Heads	3.1	6.1	6.1	4.8	5.1	5.4
Married Men	2.7	5.7	5.5	4.0	4.4	4.5
White	4.9	8.3	8.1	6.6	6.8	7.1
Negro and other races	9.9	14.2	13.4	12.2	13.3	12.9
State Insured*	3.3	7.0	6.2	4.3	4.5	4.7
Total, using additive seasonal factors	5.5	8.7	8.6	7.1	7.5	7.7

*Per cent of covered workers under regular State programs.
NOTE: May 1975 was the specific high for the total unemployment rate.

UNEMPLOYMENT RATE
(Seasonally adjusted)

	1975	1976						
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
Adjusted by:								
1976 seasonal factors	8.3	7.8	7.6	7.5	7.5	7.3	7.5	7.8
1975 seasonal factors	8.3	8.0	7.8	7.7	7.7	7.5	7.4	7.6

In large part, the recent lull in industrial expansion appears to have been intended to prevent excessive inventory accumulation. Nevertheless, the book value of manufacturers' inventories rose at a $20.9 billion annual rate in June, nearly twice as fast as the May rate of increase and the largest change in manufacturing book value since December 1974. June stocks rose more at all stages of production that they did in the prior month and the gain of work-in-process and finished goods stocks was larger than at any time since early 1975. The inventory/shipments ratio for total manufacturing rose for the first time since last fall; for durables, the ratio held constant, while in nondurables it rose for the second successive month. Even so, these book value ratios in current dollars still remain low by historical standards. The book value of wholesale trade inventories rose at a $7.4 billion annual rate in June, slower than the May increase of $11.7 billion.

Private housing starts have continued to edge upward as the June advance just about matched the 5 per cent May increase. Multifamily starts backed down a bit in June and the level remains historically quite low, but for the second quarter as a whole they were up more than 20 per cent to their highest rate since 1974-III. Single-family starts rose again in June but in the second quarter were a bit below the first quarter rate. Moderate near-term gains appear likely to continue in housing activity, as sales of new and existing homes are rising again, and mortgage credit is readily

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

	1975			1976			
	II	III	IV	I	II	May	June
Manufacturing and trade	-18.8	5.4	-1.3	19.3	n.a.	23.4	n.a.
Manufacturing	-12.5	-6.6	.6	6.3	10.5	11.0	20.9
Durable	-4.3	-8.6	-3.5	1.8	5.1	5.4	10.8
Nondurable	-8.2	2.0	4.2	4.5	5.4	5.7	10.1
Trade, total	-6.3	11.9	-1.9	13.0	n.a.	12.4	n.a.
Wholesale	-2.7	3.1	-2.0	5.0	8.1	11.7	7.4
Retail	-3.6	8.8	.1	8.0	n.a.	.7	n.a.
Auto	-1.7	5.5	.3	-.5	n.a.	-1.2	n.a.

INVENTORY RATIOS
(Based on seasonally adjusted data)

	1973	1974	1975	1976		
	II	II	II	II	May	June
Inventory to sales:						
Manufacturing and trade	1.49	1.50	1.61	n.a.	1.46	n.a.
Manufacturing	1.60	1.65	1.85	1.60	1.58	1.60
Durable	1.92	2.06	2.42	2.02	2.00	2.00
Nondurable	1.22	1.21	1.24	1.17	1.15	1.18
Trade, total	1.37	1.35	1.39	n.a.	1.34	n.a.
Wholesale	1.20	1.14	1.26	1.21	1.21	1.19
Retail	1.49	1.52	1.48	n.a.	1.44	n.a.
Inventories to unfilled orders						
Durable manufacturing	.749	.677	.829	.835	.838	.835

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

	1975		1976				Per cent change in June from:	
	QIII	QIV	QI	QII(p)	May(r)	June(p)	Month ago	Year ago
All units								
Permits	1.03	1.11	1.17	1.12	1.16	1.12	- 3	+20
Starts	1.26	1.37	1.40	1.43	1.43	1.49	+ 4	+38
Under construction 1/	1.04	1.04	1.06	n.a.	1.06	n.a.	+ 1*	--*
Completions	1.28	1.28	1.30	n.a.	1.33	n.a.	+ 5*	+ 5*
Single-family								
Permits	.73	.81	.87	.82	.81	.83	+ 3	+25
Starts	.95	1.03	1.12	1.09	1.07	1.15	+ 8	+32
Under construction 1/	.53	.56	.59	n.a.	.60	n.a.	- 1*	+17*
Completions	.91	.91	.97	n.a.	.92	n.a.	- 7*	+11*
Multifamily								
Permits	.30	.30	.30	.31	.35	.29	-18	+ 6
Starts	.31	.33	.28	.34	.36	.34	- 6	+66
Under construction 1/	.51	.48	.46	n.a.	.45	n.a.	- 2*	-17*
Completions	.37	.37	.33	n.a.	.42	n.a.	+48*	- 6*
MEMO:								
Mobile home shipments	.22	.23	.27	.24	.26	.23	-11	+15

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

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

available. Saving deposits at thrift institutions resumed their high rates of growth in July. The overall strength in deposit flows has kept mortgage interest rates from rising significantly despite increased mortgage credit demand.

Commitments data for business fixed investment improved in June. New orders for nondefense capital goods rose 1.5 per cent in June--adding a sixth month to the unprecedented string of consecutive gains in this series. Since December the total gain has been 16.5 per cent in nominal terms and 13.4 per cent in constant dollars; however, these orders in real terms still remain nearly 1/4 below the peak ordering rate of July 1974.

Unlike recent months, nonresidential construction contracts, which are quite volatile, advanced along with equipment orders in June. Contracts (measured in floor space) for commercial and industrial buildings--where activity has been severely depressed--also rose in June, and in the second quarter were 24 per cent above the first quarter level. Most of this strength came in the industrial sector. Activity in the nonbuilding area also continued strong in June.

Expenditures for producers' durable equipment, in real terms, have only recently regained the level recorded in 1975-I--the trough in aggregate activity. Orders also were late picking up in this recovery and, given an average nine month delivery lag, their recent strength suggests an optimistic outlook for machinery expenditures later this year and in early 1977.

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

	1975		1976					June 75 to June 76
	QIII	QIV	QI	QII	Apr	May	June	
New Orders Received by Manufacturers								
Total Durable Goods								
Current Dollars	7.3	1.0	7.0	8.7	-.1	3.8	1.3	28.1
1967 Dollars 1/	6.7	-1.5	5.5	7.9	-.3	3.9	.8	21.1
Nondefense Capital Goods								
Current Dollars	1.9	.6	1.6	9.3	5.0	1.2	1.5	16.7
1967 Dollars 1/	.7	-.9	.1	8.1	4.5	.8	1.0	10.4
Construction Contracts for Commercial and Industrial Buildings 2/								
Total	-4.1	.6	-8.6	24.1	-.7	1.3	5.6	14.3
Commercial	-3.4	4.5	.9	3.0	-8.7	4.9	2.9	2.7
Industrial	-4.5	11.7	-13.4	25.9	25.0	-6.8	5.6	28.0
Contracts and Orders for Plant & Equip. 3/								
Current Dollars	.5	-7.3	11.7	3.3	-4.1	-3.7	16.1	21.2
1967 Dollars 4/	-.1	-7.8	8.9	2.7	-3.2	-3.5	13.6	14.6

1/ FR deflation by appropriate WPI.

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

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

4/ An experimental BCD series.

Wage and price increases continued in June at rates quite close to those observed earlier in the year. The private nonfarm hourly earnings index increased at a seasonally adjusted annual rate of 7.3 per cent in July--above the gain in June but below the 8.2 per cent rise for all of 1975. So far this year, the earnings index has increased at just under a 7 per cent annual rate. Over the first half of 1976, wage rate adjustments for the 1.7 million workers covered by new major collective bargaining settlements averaged about 8.4 per cent for the first year of their contracts, down from last year's 10.2 per cent.

Productivity in the private business economy increased at a 3.6 per cent annual rate, according to preliminary second quarter data. (This is a BLS new series reflecting changes in coverage). Productivity has risen 8 per cent from its trough level, but remains well below the postwar trend rate of growth. Because of the cyclical recovery in productivity and some moderation of wage increases, gains in unit labor costs have decelerated to a 3.3 per cent annual rate over the past year.

Consumer prices rose by 0.5 per cent (seasonally adjusted) in June--equal to the average gain of the prior two months and considerably above the first quarter pace which was dampened by exceptional declines for food and gasoline. After removing food and energy items from the CPI, the second quarter advance was 5.5 per cent (annual rate), well below the 7-1/2 per cent rate recorded over the prior two quarters but back at about the average inflation rate of the middle quarters of 1975.

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

	1975		1976		July '75-	Jan. '76-	June '76-
	QIII	QIV	QI	QII	July '76	July '76	July '76[1/]
Private Nonfarm	8.6	8.3	6.4	6.5	7.3	6.8	7.3
Construction	6.6	4.4	4.8	8.4	5.7	8.7	8.6
Manufacturing	8.6	8.3	6.8	6.4	7.3	6.8	7.8
Trade	8.7	6.4	2.1	5.4	6.8	6.7	16.8
Services	7.3	10.6	8.3	6.1	7.3	4.4	-0.7
Transportation & Public Utilities	12.9	11.7	8.1	9.2	9.5	7.5	-5.0

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

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

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

	1975 QIII	1975 QIV	1976 QI	1976 QII	75:QII to 76:QII
Output per hour					
Private Business*	8.5	-1.6	7.5	3.6	4.4
Nonfarm Business*	9.3	-2.2	5.8	n.a.	n.a.
Manufacturing	21.1	2.7	5.1	7.8	9.0
Nonfinancial Corporations	8.5	-1.3	4.4	n.a.	n.a.
Compensation per hour					
Private Business*	5.2	8.3	10.9	7.3	7.9
Nonfarm Business*	6.8	6.6	9.5	n.a.	n.a.
Manufacturing	3.8	6.5	9.7	10.0	7.4
Nonfinancial Corporations	5.9	7.2	8.9	n.a.	n.a
Unit labor costs					
Private Business*	-3.0	10.1	3.2	3.6	3.3
Nonfarm Business*	-2.2	9.0	3.5	n.a.	n.a.
Manufacturing	-14.3	3.7	4.3	2.0	-1.4
Nonfinancial Corporations	-2.4	8.6	4.3	n.a.	n.a.

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

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	May 76 to June 76
All items	100.0	7.0	2.9	6.1	5.7
Food	24.7	6.5	-7.9	7.2	2.7
Commodities (nonfood)	38.7	6.2	2.9	5.6	5.4
Services	36.6	8.1	10.6	6.2	7.4
Memo:					
All items less food and energy 2/ 3/	68.1	6.7	7.7	5.5	3.6
Petroleum products 2/	4.5	10.1	-15.7	9.3	24.9
Gas and electricity	2.7	14.2	6.4	13.6	22.7

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

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	May 76 to June 76
All commodities	66.8	4.2	-1.8	6.6	5.3
Farm and food products	22.8	-0.3	-15.8	18.0	4.5
Industrial commodities	77.2	6.0	3.2	3.6	6.0
Excluding fuels and related products and power	66.9	5.1	6.1	3.6	4.9
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	8.9
Finished goods					
Consumer nonfoods	18.7	6.7	0.5	2.3	7.5
Producer goods	11.9	8.2	6.8	3.3	4.9
Memo:					
Consumer foods	11.1	5.5	-20.5	16.8	-11.0

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

The June rise in retail prices was characterized by the sharpest increase in energy prices since July 1975, and a smaller increase in food prices than occurred in May. Price advances for nonfood commodities edged off despite a rise in gasoline (over 2 per cent not at an annual rate) and fuel oil prices. Gasoline prices evidently rose again in July and appear to be close to last summer's peak. The smaller June rise in food prices reflected slight declines for beef and pork which had risen sharply in May. Livestock prices have continued to decline since the survey date and meat prices can be expected to provide a source of moderation. Coffee prices rose further in June; there were also increases in prices of dairy, cereal and bakery products, and food away from home. The rate of rise in service costs accelerated as gas and electricity costs were up sharply.

The wholesale price index for July will be released on August 12 and will be reported in the supplement.

Summary data released by the Treasury Department indicate that the Federal deficit for FY 1976 amounted to $65.6 billion, the result of receipts and outlays totaling $300 billion, and $365.6 billion, respectively. While the revenue total generally conformed to earlier projections, the final outlay figure was about $2 billion less than the level projected by the staff in July.

This most recent shortfall of actual outlays is attributable for the most part to expenditures which are largely outside the control of disbursing agencies--such as income transfers and interest on the public debt. Thus, since this does not reflect decisions to shift outlays intentionally to the third quarter, the staff has not changed its projection for Federal spending in the transition quarter from the $100.5 billion level. Incoming data for July are generally consistent with this spending rate.

For FY 1977, the staff is forecasting unified budget outlays of $410 billion. This reflects Congressional enactment over the President's veto of the Public Works Employment Act which is expected to add approximately $2 billion to FY 1977 spending. This should be reflected in State and local purchases later this year. Offsetting this aid package is a downward revision in outlay projections for interest payments and unemployment compensation. Consequently, the staff estimate of aggregate Federal spending for FY 1977 is unchanged from last month's forecast. The tax legislation recently passed by the Senate extends last year's tax cuts through 1977 and calls for numerous tax reform provisions. The extension of tax cuts continues to be consistent with previous staff assumptions, but the tax reform measures have not been incorporated in the current forecasts due to uncertainties surrounding its Conference outcome. Thus, receipts are currently estimated at $353 billion, and the deficit is expected to total $57 billion in the fiscal year beginning in September.

On a full employment budget basis, the staff projection indicates a quite modest shift toward restraint, with the deficit being reduced by approximately $3 billion in calendar year 1977 from 1976.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

	Fiscal Year 1976*	Fiscal Year 1977 e/ Admin. est. 1/	Fiscal Year 1977 e/ Cong. est. 2/	Fiscal Year 1977 e/ F.R. Board	CY 1976 F.R. Board	F.R.B. estimates: Calendar quarters; unadjusted data 1976 I*	1976 II*	1976 III3/	1976 IV	1977 I	1977 II
Unified budget receipts	300.0	352.5	362.5	352.9	318.0	66.9	93.6	82.3	75.1	77.9	106.6
Unified budget outlays	365.6	400.0	413.3	410.0	381.8	89.6	91.5	100.5	100.2	101.4	103.8
Surplus/deficit (-), unified budget	-65.6	-47.5	-50.8	-57.1	-63.8	-22.7	2.2	-18.2	-25.1	-23.5	2.8
Surplus/deficit (+), deficit (-), off-budget agencies 4/	-8.0	-11.4	n.a.	-11.1	-11.8	-3.8	-1.2	-5.0	-1.8	-3.6	-1.0
Means of financing combined deficits:											
Net borrowing from public	82.8	56.9	n.a.	61.9	77.5	24.1	9.3	15.5	28.6	22.5	1.0
Decrease in cash operating balance	-7.2	n.a.	n.a.	5.8	-2.1	.5	-6.8	4.9	-.7	1.6	-1.8
Other 5/	-2.0	n.a.	n.a.	.5	.2	1.8	-3.5	2.7	-1.0	3.0	-1.0
Cash operating balance, end of period	14.8	n.a.	n.a.	9.0	10.6	8.0	14.8	9.9	10.6	9.0	10.8
Memo: Sponsored agency borrowing 6/	3.5	10.8 7/	n.a.	n.a.	2.5	.3	.5	.9	.8	.9	n.a.
NIA Budget						Seasonally adjusted, annual rates					
Receipts	310.5 8/	364.7	n.a.	356.6	328.8	312.7	323.9	332.6	342.2	353.0	362.0
Outlays	375.8	404.5	n.a.	417.6	390.4	381.3	383.2	393.6	404.7	413.1	420.7
Surplus/deficit (-)	-65.3	-39.8	n.a.	-61.0	-61.6	-68.6	-59.3	-61.0	-62.5	-60.1	-58.7
High Employment surplus (+)/deficit (-), (NIA basis) 9/10/	-7.1	n.a.	n.a.	-3.8	-5.8	-9.9	-2.7	-4.3	-6.4	-5.4	-1.0

*actual e--estimated n.e.--not estimated n.a.—not available p--preliminary

1/ Mid-Session Review of the 1977 Budget, July 16, 1976.
2/ First Concurrent Resolution on the Budget, April 29, 1976.
3/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30. Hence, 1976 QIII represents a transition quarter.
4/ Includes 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.
5/ Checks issued less checks paid, accrued items and other transactions. Calendar year total exceeds sum of quarters for CY 1976 due to rounding error.
6/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
7/ Derived from Special Analyses, Budget of the United States Government, fiscal year 1977, January 21, 1976.
8/ Quarterly average exceeds fiscal year total by $.7 billion for FY 1976 due to spreading of wage base effect over calendar year.
9/ Estimated by F.R.B. staff.
10/ The high employment budget estimates now fully incorporates taxes on inventory profits beginning 1973.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

(Dollar amounts in billions)

Indicator	Latest data: Period	Latest data: Level	Net change from: Month ago	Three months ago	Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	July	34.39	2.0	4.3	.0
Nonborrowed reserves	July	34.26	1.8	3.3	.5
Money supply					
M1	July	305.0	7.5	4.4	4.5
M2	July	707.7	12.7	9.1	9.3
M3	July	1172.2	13.5	10.9	11.5
Time and savings deposits (Less CDs)	July	402.8	16.9	12.9	13.3
CDs (dollar change in billions)	July	69.6	-1.0	-1.8	-12.5
Savings flows (S&Ls + MSBs + credit unions)	July	464.5	14.6	13.5	14.9
Bank credit (end of month)	July	747.6	6.9	4.8	5.3
Market yields and stock prices		Percentage or index points			
Federal funds wk. endg.	8/4/76	5.36	-.01	.33	-.73
Treasury bill (90 day) "	8/4/76	5.15	-.23	.27	-1.22
ommercial paper (90-119 day) "	8/4/76	5.38	-.37	.25	-1.12
ew utility issue Aaa "	8/6/76	8.60	.02	-.08	-1.02
Municipal bonds (Bond Buyer) 1 day	8/5/76	6.65	-.13	-.06	-.51
FNMA auction yield (FHA/VA)	8/9/76	9.01	-.04	.07	-.31
Dividends/price ratio (Common stocks) wk. endg.	8/4/76	3.70	.08	-.07	-.60
NYSE index (12/31/65=50) end of day	8/9/76	55.30	-.76	.40	9.15
Credit demands		Net change or gross offerings			
		Current month		Year to date	
		1976	1975	1976	1975
Business loans at commercial banks	July	.8	-.1	-3.5	-6.5
Consumer instalment credit outstanding	June	1.3	.4	7.9	.1
Mortgage debt outst. (major holders)	May	4.1	3.1	21.4	14.1
Corporate bonds (public offerings)	July	1.3e	2.7	16.2e	24.0
Municipal long-term bonds (gross offerings)	July	2.6e	3.6	19.9e	18.8
Federally sponsored Agcy. (net borrowing)	July	.4	.7	1.3	.4
U.S. Treasury (net cash borrowing)	August	6.5	7.2	46.6	51.1
Total of above credits		17.0	17.6	109.8	102.0

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

The public and private sectors have continued to raise substantial amounts of funds in financial markets, despite some moderation in the pace of the economic expansion. While issuance of long-term bonds and equities by domestic corporations declined somewhat more than seasonally in July, total short-term business credit expanded for the third consecutive month. Also, household demands for home mortgages and consumer credit probably were quite strong in July, as in June, while bond financing by State and local governments moderated about seasonally. As has generally been the case throughout the current recovery, the Treasury placed the largest demands on the financial markets, meeting most of its July and August cash needs through sales of coupon securities.

The cost of long-term funds has changed little on balance since the last FOMC meeting. Short-term borrowing costs, on the other hand, have declined moderately for the second consecutive month. Most short-term interest rates currently are about 40 to 60 basis points above the lowest levels reached during the recession and recovery period, while most long-term rates are no more than 15 to 20 basis points above their respective lows.

Growth in the monetary aggregates rebounded in July following a slowdown in June. M_1 increased at an annual rate of 7.5 per cent, after contracting slightly the previous month. The rate of expansion of consumer-type time and savings accounts at banks and thrift institutions also increased. The acceleration in growth of these deposits--particularly savings deposits--apparently was associated in part with the recently reduced level of interest rates on short-term market instruments.

The ability of the financial markets to meet credit demands at virtually unchanged or declining yield levels has been enhanced by a widespread opinion among market participants that monetary policy will not tighten appreciably, and that aggregate credit demands will remain moderate. Fears that the sharp pickup in the growth of the monetary aggregates in early July might presage an increase in rates--as occurred in late April and May--have been allayed by the relative stability of the Federal funds rate around 5-1/4 per cent and by Chairman Burns' recent testimony indicating that the FOMC had not changed the M_1 growth rate range for the next year.

Money markets. Since the July FOMC meeting, yields on Treasury bills and private short-term credit instruments have dropped by 10 to 20 basis points, bringing the cumulative declines since early June to more than 40 basis points on most securities. Three-month Treasury bills most recently were bid around 5.18 per cent, about equal to rates prevailing in early May.

The spread between commercial paper rates and the bank prime rate widened further in July, and total commercial paper outstanding rose by $900 million on a seasonally adjusted basis--the largest increase since April 1975. Nonfinancial corporations and finance subsidiaries of the auto companies accounted for most of the rise.

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

	July '75 FOMC July 15	May '76 FOMC May 18	June '76 FOMC June 22	July '76 FOMC July 20	July 27	Aug. 3	Aug. 10
Short-term							
Federal funds 1/	5.93	5.28	5.48	5.30	5.28	5.36	5.26 5/
Treasury bills							
3-month	6.05	5.28	5.38	5.24	5.15	5.14	5.18
6-month	6.38	5.73	5.75	5.57	5.42	5.47	5.44
1-year	6.49	6.03	6.08	5.85	5.69	5.73	5.66
Commercial paper							
1-month	6.13	5.25	5.63	5.25	5.13	5.13	5.13
3-month	6.25	5.50	5.88	5.50	5.38	5.38	5.38
Large neg. CD's 2/							
3-months	6.45	5.63	5.88	5.45	5.40	5.35	5.38
6-months	7.00	6.15	6.15	5.80	5.75	5.75	5.75
Federal agencies							
1-year	7.24	6.65	6.57	6.43	6.34	6.19p	n.a.
Bank prime rate	7.00	6.75	7.25	7.25	7.25	7.00	7.00
Long-term							
Corporate							
Neww AAA 1/	9.38	8.82	8.69	8.53	8.66	8.72	8.60p
Recently offered 3/	9.45	8.78	8.70	8.55	8.68	8.69	8.60p
Municipal (Bond Buyer) 4/	6.98	6.83	6.85	6.78	6.77	6.73	6.65
U.S. Treasury (20-year constant maturity)	8.10	8.13	7.99	8.05	8.03	8.00	7.96
Stock prices							
Dow-Jones Industrial	881.81	989.45	997.63	988.29	984.13	970.33	983.46
N.Y.S.E. Composite	51.24	53.92	55.14	55.42	55.31	55.61	55.30
AMEX	96.86	104.43	104.70	104.42	104.19	103.72	103.23
Keefe Bank Stock	575	591	626	617	613	611	609

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

Bond and equity markets. Since the July FOMC meeting, yields on short- and intermediate-term Treasury coupon securities have declined 10 to 20 basis points, while yields on long-term issues have shown little change. Although the terms for the August refunding announced by the Treasury on July 28 were set aggressively with respect to size and maturity, the package was in line with market expectations and was favorably received. The Treasury announced that it would sell at least $7 billion of new securities in order to redeem $4.5 billion of debt maturing on August 16 and to raise new cash. Three issues were included in the operation: $2 billion of 3-year notes auctioned on August 3, $4 billion of 8 per cent 10-year notes sold at par through subscriptions which were taken through August 4, and $1 billion of 25-year bonds auctioned on August 7. The Treasury also indicated that it would increase the volume of 10-year notes if demand was large.

The 3-year note was sold at an average auction yield of 6.91 per cent, in line with yields on similar outstanding issues. The 25-year bond also was well received with an average yield of 8.01 per cent. The Treasury attracted more than $24 billion of subscriptions for the 10-year note, and made allotments of $7.6 billion.

The Treasury has raised a total of $11.5 billion of new cash in the market since the beginning of July. During the remainder of the third quarter, Treasury borrowing in the market is expected to amount to only about $2 billion. In view of the projected budget deficit, the Treasury thus will need to run down its cash balance by about $5 billion over the quarter--from the very high $14.8 billion level on June 30.

Gross issues of publicly offered corporate bonds were $1.3 billion in July, down somewhat more than seasonally from the $2.5 billion monthly average in the first half of the year. The decline was due principally to a dearth of prime-rated issues; the larger, higher-rated corporations apparently had accelerated their bond financing earlier in 1976 in the expectation that bond rates would move upward as the year progressed. Privately placed issues, which are sold mainly by lower-rated firms, are estimated to have remained quite sizable in July. Access to the public bond market by such issuers had been constrained to some degree earlier in the year when investors were more quality conscious.

Although corporate bond yields have risen slightly on balance since the last FOMC meeting, the increases occurred soon after the FOMC meeting. Yields have moved downward more recently, reflecting the relatively light forward supply of new issues and the edging lower of short-term rates.

New issues of common and preferred stock by domestic corporations totaled $800 million during July, down about seasonally from the $1.1 billion pace in the first half of the year. Stock offerings of utilities remained close to the second quarter average, while those of manufacturers fell off considerably. The major stock price indexes have fluctuated within a narrow range over the past several months.

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

	1975		1976				
	1975	QIV	QI	QII e/	July e/	Aug. f/	Sept. f/
				Gross offerings			
Corporate securities--Total	4,469	4,364	4,611	4,419	3,200	3,000	3,500
Publicly offered bonds	2,717	1,939	2,523	2,436	1,300	1,400	1,500
By quality 1/							
Aaa and Aa	1,422	776	1,559	1,148	275	--	--
Less than Aa 2/	1,295	1,163	964	1,288	1,025	--	--
By type of borrower							
Utility	925	783	630	780	525	--	--
Industrial	1,432	780	1,210	880	500	--	--
Other	360	376	683	776	275	--	--
Privately placed bonds	847	1,386	907	913	900	800	1,000
Stocks	905	1,039	1,181	1,070	800	800	1,000
By type of issuer							
Manufacturing	123	158	303	325	100	--	--
Utility and transp.	598	664	750	643	600	--	--
Other	184	217	128	102	100	--	--
Foreign securities 3/	451	634	447	614	500	200	400
State and local government securities							
Long-term	2,544	2,252	2,798	2,969	2,600	2,200	1,900
Short-term	2,420	2,216	1,671	2,624	1,600	1,300	2,000
			Net offerings				
U. S. Treasury	7,564	8,048	7,897	2,518	3,224	8,400	2,300
Sponsored Federal agencies	187	390	414	-80	97	-24	442

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

Gross issues of long-term tax-exempt securities amounted to about \$2.6 billion in July, down about seasonally from the second quarter average. Average yields on municipal securities have edged down a bit since the last FOMC meeting.

Monetary aggregates. M_1 expanded at a seasonally adjusted annual rate of 7.5 per cent in July, rebounding from the 0.8 per cent rate of decline in June, which was associated with a temporary tax-payment related reduction in private demand balances and a large build-up of Treasury cash balances. The average growth rate for June and July was 3.3 per cent, well below the average for the first half of the year.

Growth of the more broadly-defined money stock measures--M_2 and M_3--also picked up in July. While due in part to the rebound in M_1, these advances also reflected substantial increases in savings and consumer-type time deposits at both banks and thrift institutions. Savings accounts at commercial banks, which failed to increase in June after several months of rapid growth, expanded at an 11-1/2 per cent rate in July. Deposit flows to thrift institutions, which also had slowed in June, resumed the strong growth that had characterized the first five months of the year.[1/] Most of the deceleration in deposit flows to savings and loan associations in June was due to a

1/ Deposit growth for S&L's and MSB's combined picked up from 11.8 per cent to 13.9 per cent, measured on a monthly-average basis. However, on a month-end basis, the June slowdown and July pickup are much sharper. On this basis, combined growth went from 10.1 per cent in June to 17.6 per cent in July.

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975 HII	1976 HI	QI	QII	June	July[p]	Twelve months ending July 1976
	Per cent at annual rates						
M_1 (currency plus demand deposits)	4.7	5.5	2.6	8.4	-0.8	7.5	4.5
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.3	10.8	10.1	11.3	5.3	12.7	9.3
M_3 (M_2 plus deposits at thrift institutions)	11.5	12.1	11.4	12.4	8.0	13.5	11.5
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	16.3	3.4	3.7
Total time & savings deposits at CBs	7.3	7.1	7.8	6.2	15.3	11.3	7.9
a. Other than large negotiables CDs	11.4	15.1	15.9	13.7	10.1	16.9	13.3
1. Savings deposits	17.0	25.8	28.3	21.7	0.0	11.4	20.1
2. Time deposits	7.4	6.9	6.7	7.0	19.0	20.9	8.3
Deposits at nonbank thrift institutions							
a. Savings and loans	18.2	15.5	15.0	15.4	12.8	15.4	16.4
b. Mutual savings banks	11.9	9.7	9.1	10.1	9.0	9.7	10.1
c. Credit unions	18.6	16.6	16.8	15.8	17.2	21.4	18.3
	Billions of dollars (Based on seasonally adjusted monthly data, not annualized)						
Memoranda:							
a. Total US Govt deposits	0.3	0.4	1.1	-0.4	2.4	-0.8	0.4
b. Negotiable CDs	-0.2	-2.1	-3.2	-0.9	2.4	-1.0	-1.0
c. Nondeposit sources of funds	0.2	--	-0.1	0.1	0.8	0.4	0.2

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

drop in savings deposit growth. The resumption of savings deposit growth at banks and thrift institutions in July probably was associated in part with the reductions in short-term market interest rates since early June, reversing the outflows that followed the back-up of short-term rates in late April and May.

After advancing by $2.4 billion in June--the first increase in six months--negotiable CD's at weekly reporting banks contracted by $1 billion in July. The June increase in CD's apparently was due primarily to greater-than-usual window dressing for the mid-year statement date. In fact, a single bank accounted for more than half of the June increase in CD's and for about half of the decline in July.

Loan developments. Bank loans increased at a seasonally adjusted annual rate of more than 8 per cent in July, representing almost all of the 6 per cent rise in total commercial bank credit. Holdings of Treasury securities, which had been accounting for the bulk of the growth in bank credit over the past 1-1/2 years, declined sharply in July while holdings of other securities--particularly tax warrants--grew sufficiently to offset the decline in holdings of Treasurys.

Business loans at banks declined less than usual in July following a smaller than usual rise in June, resulting in a seasonally adjusted rise in July at an annual rate of 5.5 per cent--the largest increase of the year. Total short-term business credit--bank loans plus nonfinancial commercial paper--rose by $1.1 billion in July, the third

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

	1975	1976					
	HII	HI	QI	QII	May	June	July
Total loans & investments[2/]	4.5	4.9	5.5	4.3	5.4	2.1	6.9
US Treasury securities	22.1	36.8	44.3	26.3	40.0	12.9	-16.6
Other securities	2.9	-1.0	-4.1	2.2	--	.8	13.3
Total loans[2/]	2.3	1.6	2.1	1.0	.7	.5	9.5
Business loans[2/]	-1.2	-4.9	-7.4	-2.2	2.1	-2.8	5.5
Real estate loans	4.3	8.0	8.9	6.9	8.6	5.1	7.7
Consumer loans*	9.3	4.9	4.0	5.7	2.6	3.9	n.a.
MEMO: Business loans plus nonfinancial commercial paper[3/]	-3.1	-1.7	-5.3	1.9	3.2	2.6	7.1

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
n.a.--not available
* Data for consumer loans have been revised to conform with the latest revision in consumer credit statistics.

consecutive monthly increase. The prime lending rate at major banks held at 7-1/4 per cent throughout July, but the general decline in short-term market rates induced most major banks to lower their prime rates to 7 per cent in early August.

Mortgage market activity, which has remained concentrated in loans for the purchase or construction of single-family homes, has continued to increase as the value of new residential construction put in place has picked up somewhat further and sales of existing homes have reached record levels. Although commercial banks have been adding to their mortgage holdings at a moderate rate, S&L's have continued to dominate the conventional home mortgage market to an unusual degree in this recovery. Moreover, most newly originated Government-underwritten home loans have been flowing into pools backing issues of GNMA-guaranteed securities, and S&L's have been acquiring about 20 per cent of these issues. Issues of GNMA securities were a record $1.3 billion in July.

In June (latest data available), total mortgage debt formation at S&L's reached an all-time high of $4.0 billion, and at the end of the month mortgage commitments outstanding (including loans in process) were a near-record $20.5 billion. Although S&L's drew down liquid assets by $1.7 billion in June as deposit flows slowed temporarily, these institutions remained in a relatively strong balance sheet position despite the high level of loan commitments. Average rates on new commitments for home mortgages at S&L's have risen slightly since mid-July, while yields in the more sensitive secondary mortgage market have edged downward.

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

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Per cent of S&L's with funds in short supply
1975--High	9.59	--	66
Low	8.80	--	7
1976--High	9.10	--	10
Low	8.70	--	0
July 2	8.93	+3	8
9	8.93	0	9
16	8.93	0	9
23	8.90	-3	6
30	8.98	+8	7
Aug. 6	9.00	+2	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1975--High	100	51	10.02	643	366	9.95	9.10
Low	11	9	8.96	25	18	8.78	7.99
1976--High	137	105	9.31	634	321	9.20	8.44
Low	33	23	9.00	58	32	8.83	8.00
July 6							8.41
12	91	82	9.27	148	88	9.05	8.34
19							8.34
26	131	105	9.23	312	212	9.04	8.37
Aug. 2							8.37
9	137	93	9.17	190	107	9.01	8.32

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data reflect the average accepted bid yield for home mortgages, assuming a 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.

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

The expansion in outstanding consumer instalment credit slowed somewhat in June, but the 9.7 per cent annual rate of increase was about equal to the average for the first five months of the year. Credit unions accounted for the largest share of the growth, as the increase at commercial banks was considerably smaller than in May.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976 QI*	1976 QII*	1976 May*	1976 June*
Total						
Change in outstandings						
$ Billions	9.0	6.8	14.8	16.9	17.7	16.0
Per cent	6.1	4.4	9.1	10.5	10.9	9.7
Bank share (%)	44.4	41.7	31.0	40.1	48.4	30.8
Extensions						
$ Billions	160.0	163.5	182.8	182.5	180.5	187.1
Bank share (%)	45.4	47.2	46.9	47.1	48.0	46.7
Liquidations ($ billions)	151.1	156.6	168.0	165.6	162.8	171.1
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.3	7.6	7.8	6.3
Per cent	0.7	5.2	13.7	14.2	14.3	11.4
Extensions						
$ Billions	43.2	48.1	54.9	54.6	53.7	55.2
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 1/	8.8	14.0	20.0	22.4	22.4	--
Finance companies	8.6	23.5	29.5	--	32.0	--
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.17	11.03	11.00	11.02
Finance companies	12.61	13.11	13.15	--	13.15	--

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

U.S. International Transactions
(In millions of dollars, seasonally adjusted 1/)   August 11, 1976

IV - T - 1

	1975 Year	1975 Q4	1976 Q1	1976 Q2	1976 May	1976 June
1. rchandise exports	107,072	27,655	26,939	28,473	9,371	9,796
2. Merchandise imports	98,126	25,448	28,447	29,637	9,421	10,477
3. Trade Balance	8,946	2,207	-1,508	-1,164	-50	-681
4. Bank-reported private capital flows	-12,585	-4,585	-2,833	-777	-190	-3,804
5. Claims on foreigners (increase -)	-13,238	-5,287	-3,714	-4,404	-987	-959
6. Long-term	-2,351	-943	-245	-326	-272	126
7. Short-term	-10,887	-4,344	-3,469	-4,078	-715	-1,085
8. (of which on commercial banks in offshore centers 2/)	(-6,920)	(-2,076)	(-3,735)	(-1,893)	(309)	(-625)
9. Liabilities to foreigners (increase +)	653	702	881	3,627	797	-2,845
10. Long-term	-355	91	166	-206	-10	60
11. Short-term	1,008	611	715	3,833	807	-2,905
12. to commercial banks abroad	-605	-992	1,034	2,524	1,162	-3,500
13. (of which to commercial banks in offshore centers 3/)	(1,795)	(706)	(-229)	(1,050)	(20)	(-2,923)
14. to other private foreigners	1,549	758	146	484	-212	133
15. to int'l and regional organizations	64	845	-465	825	-143	462
16. Foreign private net purchases (+) of U.S. Treasury securities	2,649	162	451	-633	108	-194
17. Other private securities transactions (net)	-3,479	-1,144	-1,481	-1,236	-443	-546
18. Foreign net purchases (+) of U.S. corp. securities	2,727	1,217	1,026	200	38	27
19. (of which stocks)	(3,205)	(944)	(942)	(187)	(47)	(-15)
20. U.S. net purchases (-) of foreign securities	-6,206	-2,361	-2,507	-1,436	-481	-573
21. (new foreign issues of bonds and notes)	(-7,168)	(-2,573)	(-2,824)	(-1,600)	(-560)	(-565)
22. Change in foreign official assets in the U.S.	4,604	2,088	1,856	2,460	1,168	-451
23. OPEC countries (increase +)	5,677	1,780	1,573	2,531	1,101	-92
24. (of which U.S. corporate stocks)	(1,469)	(519)	(531)	(591)	(68)	(267)
25. Other countries (increase +)	-1,073	308	283	-71	67	-359
ange in U.S. reserve assets (increase -)	-607	89	-773	-1,578	-558	-499
27. Other transactions and statistical discrepancy (net payments (-))	472	1,183	4,288	2,928	-35	6,175
28. Other current account items	2,963	956	1,460			
29. Military transactions, net 4/	-1,223	-160	-79			
30. Receipt of income on U.S. assets abroad	18,219	4,709	5,419			
31. Payment of income on foreign assets in U.S.	-12,212	-3,039	-3,290			
32. Other services, net	2,163	455	441			
33. Remittances and pensions	-1,727	-433	-480			
34. U.S. Gov't grants 4/	-2,257	-576	-551			
35. Other capital account items	-7,128	-1,908	-1,746			
36. U.S. Govt. capital, net claims 4/ (increase -)	-2,027	-523	763			
37. U.S. direct investment abroad (increase -)	-6,307	-1,694	-1,580			
38. Foreign direct investment in U.S. (increase +)	2,437	1,229	-689			
39. Nonbank-reported capital, net claims (increase -)	-1,231	-920	-240			
40. Statistical discrepancy	4,637	2,135	4,574			
MEMO:						
41. Current account balance	11,908	3,163	-48	n.a.	n.a.	n.a.
42. Official settlements balance	-3,997	-2,177	-1,083	-882	-610	950
43. O/S bal. excluding OPEC	1,680	-397	490	1,649	491	858

NOTES:

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

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

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

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

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The dollar was relatively unaffected by the various cross-currents in the exchange markets over the past four weeks. A firming of the mark led to the re-emergence of speculation on a snake realignment, but this was countered by interest rate increases in the Netherlands and Belgium.

. The yen was also firmer. On the other hand, the French franc declined somewhat further , and the Canadian dollar dropped by 2 per cent . Sterling held fairly steady . The net effect of all of this was to leave the dollar's weighted average exchange value essentially unchanged, .

The troubles in the snake arose around month-end when the mark suddenly advanced against all currencies. This led to a rekindling of speculation that Germany, with an inflation rate continuing to hold at half that of its snake partners, would soon have to revalue the mark with respect to other snake currencies.

. The National Bank of Belgium raised its discount rate by 1 per cent to 8 per cent on July 23 and subsequently raised various other official interest rates. The Netherlands Bank raised its discount rate by 1/2 per cent to 5-1/2 per cent on July 30.

Italian officials announced publicly that they had repaid all drawings on the System. On July 21, the Bank of Italy announced a three-month extension of its import deposit scheme which had been scheduled to expire on August 3.

The French franc was under downward pressure early in the period under the impact of the growing concern about the effects of the drought and upward revisions of inflation forecasts. Toward month-end the franc was bouyed by news of the much better-than-expected consumer price index for June, but later on the franc came off again, reaching new lows.

Bank of France

raised domestic interest by other means to offer some support to the franc. On July 22 the Bank of France raised its discount rate by 1-1/2 per cent to 9-1/2 per cent.

The Canadian dollar dropped sharply from just under \$1.03 on the date of the last Green Book to below \$1.01 on August 6, before recovering slightly. Volume in the Canadian dollar market was at record levels

. A hiatus in Canadian bond issues abroad, increased concern that Montreal and Quebec had lost a lot of money on the Olympics, and the publication of a pessimistic OECD report on Canada's inflation prospects contributed in varying degrees to the pressure on the Canadian dollar.

Sterling traded in the 1.78-1.80 range over the past month,

. The market showed little apparent reaction to Chancellor Healey's announcement, on July 22, of a £ 1 billion reduction in planned expenditures and a £ 1 billion increase in indirect taxes for the fiscal year beginning next April.

Gold dropped precipitously in the few days after the second IMF auction on July 14, reaching a London fixing low of \$107.75 on July 20. The price subsequently rebounded as high as \$115 and in recent days has settled in the \$111 to \$114 range.

<u>OPEC investment flows</u>. In the second quarter of 1976 the OPEC countries' surplus on goods and services was probably not much different in overall size from the estimated \$9-10 billion surplus in the first

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

	1974 Year	1975 Year	1975 1st Half	1975 2nd Half	1976 Q-1	1976 Q-2
I. In United States	12.0	9.5	2.3	4.8	0.8	2.8
A. Short-term assets 1/	9.3	0.3	-1.2	1.5	0.4	0.6
B. Treasury bonds and notes	0.2	2.0	1.2	0.7	0.6	1.0
C. Other deposits and securities 2/	1.3	4.0	2.0	2.0	1.2	1.2
D. Direct investment	0.3	1.0	0.3	0.6	-1.4	n.a.
E. Other 3/	0.9	2.2	n.a.	n.a.	n.a.	n.a.
II. In United Kingdom	7.2	0.2	0.7	-0.5	-0.3	-0.5
A. Liquid sterling assets 4/	5.3	0	0.4	-0.7	-0.4	-1.2
B. Other loans and investments	1.2	0.2	0.3	0.2	0.1	0.7
III. In Euro-Currency Market	24.5	9.1	6.1	3.0	0.9	2.8
A. United Kingdom	13.8	4.1	2.1	2.0	-0.1	2.3
B. Other centers (est.) 5/	10.7	5.0	4.0	1.0	1.0	0.5
IV. International Institutions	3.3	3.5	1.8	1.7	1.5	0.1
A. Bonds	1.5	0.9	0.8	0.1	0.3	0.1
B. IMF Oil Facility	1.8	2.6	1.0	1.6	1.2	6/
V. Total Identified Above	47.0	22.3	10.9	9.0	2.9	5.2
VI. All Other (residual)	10.6	12.2	6.5	8.1	5.4-6.4	3.1-4.1
VII. Total=Investible Surplus	57.6	34.5	17.4	17.1	8.3-9.3	8.3-9.3
VIII. OPEC Grant Aid	2.4	2.5	1.6	0.9	0.7	0.7
IX. Surplus on Goods and Services 7/	60.0	37.0	19.0	18.0	9-10	9-10

1/ Principally Treasury bills, repurchase agreements, bank deposits and CD's.
2/ Long-term bank deposits, corporate and Federal Agency bonds, and equities.
3/ Debt repayment, direct investment, prepayments of imports, real estate purchases, and miscellaneous investments.
4/ Treasury bills and bonds, bank and other deposits.
5/ Including domestic-currency bank deposits in centers other than the United Kingdom and United States.
6/ Less than $50 million.
7/ With oil receipts on a cash basis.
Note: figures may not add to totals because of rounding.

quarter of this year, or from the average quarterly rate in 1975. However, the disposition of the increment to OPEC assets in the second quarter showed a number of major differences from the first quarter pattern. Investments in both the United States and the Euro-currency market were substantially larger than in the first quarter, while lending to the IMF Oil Facility terminated in the second quarter and net liquidation of sterling assets in the United Kingdom rose sharply from the first-quarter level.

Investment flows into the United States increased to $2.8 billion in the second quarter from a net amount of $0.8 billion in the first quarter made up of 1) additions to money market and security holdings of $2.2 billion (revised upward from $1.2 billion reported earlier), and 2) negative direct investment of $1.4 billion reflecting withdrawal of accumulated earnings from a U.S. oil company by a Middle East government shareholder (a transaction not previously reported). With respect to the money and capital market assets, in the second quarter Middle East oil-exporting countries reduced their incremental investment here to $2.7 billion from a first-quarter total of $3.0 billion that included $1.4 billion of acquisitions of short-term assets (of which $1.0 billion not reported earlier) with funds obtained from the above-mentioned liquidation of direct investment holdings. However, African oil exporters, Venezuela, and Indonesia each shifted from net disinvestment in the first quarter, totaling $0.8 billion for the three, to net investment in the second quarter of $0.1 billion. The higher net inflow of OPEC funds into U.S. money and capital market assets took the form of stepped-up purchases of both short-term assets and Treasury bonds and notes.

U.S. Treasury estimates of OPEC net additional investment in the United States have also been raised substantially for 1974 and 1975 -- to $12.0 billion in 1974 (from the earlier-reported figure of $11.25 billion) and to $9.5 billion in 1975 (from $6.3 billion previously). The 1974 revision takes account of $0.3 billion of OPEC direct investment in a U.S. oil company and an estimated $500 million of debt repayments. The higher level for 1975 now reported reflects Treasury estimates that, in addition to money market and security investments of $6.3 billion (revised upward from $5.9 billion), OPEC countries made $1 billion of direct investment in a U.S. oil company, another $500 million of debt repayment, about $1.5 billion of prepayments of U.S. goods, and $200 million of real estate and other investments. These estimates -- most of which are subject to wide margins of error -- are shown in the attached table; except for direct investment, estimates for the two halves of 1975 separately cannot be made.

OPEC countries added $2.3 billion to their Euro-currency deposits in London and elsewhere in the second quarter, much more than in the three preceding quarters and close to the rate of addition to these deposits in the first half of 1975. The stepped-up accumulation of Euro-currency deposits reflected the phase-out of the IMF Oil Facility and the rundown of sterling assets. Lending to the Oil Facility was negligible in the second quarter as the Facility made its final disbursements. OPEC loans to the Facility totaled $5.7 billion during the Facility's two-year existence.

Net disinvestment by OPEC countries in sterling assets in the United Kingdom became much larger in the second quarter; this was the fifth consecutive quarter in which sterling holdings in Britain were either reduced or not increased. Liquid sterling holdings declined the equivalent of $1.2 billion in the second quarter, compared with $0.4 billion in the first, while net acquisitions of other sterling assets (including corporate securities and real estate) were $0.1 billion in each quarter. For the five quarters 1975-II through 1976-II, liquid sterling holdings fell $2.7 billion and net acquisitions of other sterling assets came to $0.4 billion, for a net reduction in total sterling assets in the U.K. of $2.3 billion.

British borrowers obtained $0.6 billion of non-sterling loans from OPEC lenders in the second quarter, the first such borrowings since the second quarter of 1975. Direct loans of this type were a substantial $1.2 billion in 1974, but they amounted to only $0.2 billion in 1975. The loans this year have not been publicized, but presumably they concern loans to U.K. public authorities by Gulf state oil producers.

In addition to the current account surplus, another source of investible funds -- at least temporarily -- for the OPEC countries this year has been foreign borrowing. According to World Bank data, in the first half of 1976 OPEC countries arranged $1.7 billion of medium-term Euro-credits, principally by Iran, Algeria, the UAE and Indonesia. In the table, the residual entry (line VI) is necessarily on a net basis, and includes liabilities corresponding to proceeds of foreign loans temporarily invested pending their expenditure on goods and services. However, because of data limitations, it is not possible to add drawdowns of foreign loans to the estimate of the surplus on goods and services and show the disposition of the combined amount.

U.S. International Transactions. The U.S. merchandise trade balance showed a $4.7 billion deficit at a seasonally-adjusted annual rate during the second quarter, compared with a $6.0 billion deficit during the first quarter. With the surplus on service account expected to be slightly larger than in the first quarter, the current account balance should show a small surplus, after being essentially zero in the first quarter.

U.S. Merchandise Trade, Balance-of-Payments Basis
(billions of dollars, seasonally-adjusted annual rates)

	1975	1975				1976			
	Year	1Q	2Q	3Q	4Q	1Q	2Q	May r	June
EXPORTS	107.1	108.1	103.4	106.2 r	110.6	107.8	113.9	112.5	117.6
Agric.	22.3	24.3	19.6	22.3	23.0	21.3	23.3	23.8	23.6
Nonagric.	84.8 r	83.8	83.8	83.9 r	87.7	86.4	90.6	88.7	94.0
IMPORTS	98.1 r	102.3	90.4	98.0	101.8	113.8	118.5	113.1	125.7
Fuels	28.5	27.8	26.7	30.0	29.5	31.9	36.4	29.9	40.9
Nonfuels	69.6	74.5	63.7	68.0	72.3	81.9	82.1	83.1	84.8
TOTAL BALANCE	+8.9 r	+5.8 r	+13.0	+8.2 r	+8.8	-6.0	-4.7	-.6	-8.2

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

U.S. exports rose to $113.9 billion at a seasonally-adjusted annual rate during the second quarter, up $6.1 billion from the first quarter. About two-thirds of this increase represented an increase in non-agricultural exports.

The increase in non-agricultural exports from $86.4 billion during the first quarter to $90.6 billion during the second quarter comprised about a 3-1/2 per cent increase in volume and a 1 per cent increase in prices. This increase was largely attributable to increases in world demand, which has been rising at a rate somewhat above trend as recovery from the recent recession continues. The weighted-average value of the dollar has appreciated about 7 per cent since January, but the effect of this on the foreign currency prices of U.S. goods has been approximately offset by foreign price increases. About 20 per cent of the increase in non-agricultural exports was in automotive equipment to Canada, typically related to Canadian assembly of automobiles for the U.S. market; another 20 per cent of the increase was in exports of non-agricultural industrial supplies, typically related to expansion in foreign economic activity; and about 25 per cent of the increase was in exports of civilian aircraft and parts, a volatile series. New export orders for durable goods (excluding motor vehicles and aircraft) rose about 7 per cent to $3.5 billion during the second quarter, while unfilled orders (excluding motor vehicles and aircraft) fell about 4 per cent to $7.1 billion.

U.S. agricultural exports increased by $2.0 billion to a seasonally-adjusted annual rate of $23.3 billion during the second quarter, with an estimated 10 per cent of the increase in volume and unit values down slightly. This increase largely reflects the poor European crop outlook and low stocks of several months past. The European drought has not yet affected U.S. agricultural export statistics, since volume and unit value figures reflect sales contracted earlier. During the second quarter, spot agricultural prices rose sharply and then fell back somewhat as improved prospects for crops in the United States and the Soviet Union enabled the market to absorb the current and anticipated increased European demand without a substantial price rise. Unit values will probably rise in the third and fourth quarters, reflecting higher prices in contracts signed in late June and early July, and should then recede somewhat.

Over eighty per cent of the increase in U.S. exports went to other developed countries, whose imports from the United States increased by about 9 per cent over the preceding quarter, compared with a rise of only 3 per cent in exports to the developing countries. U.S. exports to the developing countries have tended to lag behind exports to the developed countries because many developing countries are taking measures to hold down imports in the face of large accumulated debt and weakened international reserve positions. Based on preliminary data, U.S. exports to non-oil developing countries were flat through the second quarter and down somewhat from the first quarter, while U.S. exports to the oil-exporting developing countries rose steadily through the second quarter, at about the same rate as exports to the developed countries.

U.S. imports rose to a rate of $118.5 billion during the second quarter, from $113.8 billion during the first quarter. The bulk of the increase is attributable to increased imports of fuel.

U.S. fuel imports rose from a rate of $31.9 billion in the first quarter to $36.4 billion during the second quarter, primarily because of increased domestic demand associated with rising income, and to a lesser degree because of a continuation of the gradual decline in domestic U.S. production. While recent House-Senate conference agreement on a bill to permit the price of domestically-produced crude oil to rise at a rate of 3-10 per cent year indicates the bill's likely passage, the price provisionsof this bill are unlikely to have much impact on U.S. oil consumption. The U.S. crude oil price control program does not affect the price of refined petroleum products, although it does affect the cost of crude oil to domestic refiners, and hence their costs and profits. The U.S. price of petroleum products has stayed in line with the world market prices of these products, which is determined by the OPEC price of crude and the margins charged by European refiners (currently low, but rising with increasing world demand). Thus, an increase of about 25 cents in the price of a barrel of refined petroleum products in the first half of 1976 occurred at the same time that Federal regulators rolled back the domestic price of crude oil by about 65 cents per barrel.

U.S. imports of non-fuel products were virtually unchanged at $82.1 billion during the second quarter. Prices increased by about 2 per cent, while import volume declined after what appeared to be a high rate of inventory accumulation during the first quarter.

Bank-reported claims on foreigners increased by about \$4.4 billion during the second quarter. The increase in claims in June reflects U.S. banks' funding of their branch lending activities. This would be in line with the relative easing of U.S. interest rates in June.

Bank liabilities to private foreigners increased by \$2.8 billion during the second quarter, compared with an increase of \$1.3 billion during the first quarter. Of the second-quarter increase, \$900 million represented increased demand deposits held by foreign banks with U.S. banks. The \$2.8 billion reduction in liabilities to foreigners during June was largely attributable to reserve transactions associated with the last business day of May being on Friday.

Private securities transactions, other than dealings in U.S. Treasury obligations, accounted for an outflow of \$1.2 billion during the second quarter, somewhat less than the outflow of \$1.5 billion during the first quarter. Foreign net purchases of U.S. corporate stocks fell to about \$200 million during the second quarter, down about \$800 million from the first quarter, and reflecting, to some degree, the end of the earlier sharp run-up in U.S. stocks prices. But the outflow on U.S. purchases of foreign securities declined as well, largely owing to a decline in new bond issues to \$1.5 billion, affer a first quarter outflow of \$2.8 billion. New issues in July amounted to \$1.9 billion, much of which was accounted for by a \$750 million IBRD issue and a \$470 million privately-placed Canadian provincial issue not announced earlier. The August bond-issue calendar indicates little activity, but conditions remain attractive for Canadian issuers and new issues could quickly be brought on the market, as happendd in July.

Foreign official assets in the United States increased by $2.5 billion during the second quarter, compared with an increase of $1.9 billion during the first quarter. OPEC member countries increased their liquid and securities investments in the United States by $2.9 billion, compared with an increase of $2.2 billion during the first quarter. Most of this change in asset accumulation went into short-term instruments as OPEC member countries held purchases of corporate securities at $600 million, about the first quarter rate. Official assets of other countries held in the United States declined by about $400 million, Recent Trade Developments in Major Foreign Industrial Countries. The downturn in economic activity during 1974 and early 1975 was accompanied by the first significant decline in the volume of international trade in the post-war period. For the OECD area as a whole, import volumes fell by 8 per cent between 1974 and 1975, while export volumes declined by 5 per cent. The volume of world trade picked up sharply in the last quarter of 1975, reflecting the recovery of economic activity in the major industrial countries and the importance of inventory swings, which, because of the high import content of stocks, gave an extra boost to trade. So far in 1976, the growth of trade has continued, but at a somewhat slower pace. (See Table 1).

The role which trade played in the economic downturn and subsequent recovery varied among the industrial countries. The decline in the volume of international trade in late 1974 and early 1975 originated in the fall in import demand in some of the major industrial countries, particularly the United States, France, Italy, the United Kingdom, and Japan. At the same time, exports of these countries held up quite well. These countries thus had large swings toward surplus in their trade accounts during the first half of 1975 (see Table 2), and the external sector played an important role in moderating the impact of the recession during the period. In other industrial countries, notably Germany, the Scandinavian countries, and Canada, export volume turned down sharply while imports were maintained or increased, and the decrease in foreign demand had a considerable contractionary impact on economic activity. These countries experienced declines in their trade surpluses, or increases in their trade deficits, in value terms.

Table 1. Trade Volume Indexes for Major Industrial Countries, 1973-1976 (1970=100)

		1973	1974	1975	1974 QIII	1974 QIV	1975 QI	1975 QII	1975 QIII	1975 QIV	1976 QI	1976 QII
Canada	export volume	127.6	121.8	112.6	124.0	118.1	111.6	112.0	109.8	117.0	122.1	
(s.a.)	import volume	149.0	163.9	155.8	168.6	163.3	156.4	155.9	154.2	156.5	164.7	
France	export volume	136.5	149.9	144.1	137.0	149.0	145.6	149.3	130.6	148.8	153.6	
(n.s.a.)	import volume	139.4	143.9	131.6	133.8	136.2	127.9	132.5	120.7	127.9	160.4	
Germany	export volume	133.3	149.9	134.3	150.3	145.0	132.7	132.7	132.7	138.0	146.3	
(s.a.)	import volume	129.2	127.4	130.7	129.7	128.3	125.4	129.6	130.7	136.0	144.7	
Italy	export volume	122.9	132.0	135.0	138.0	137.2	123.2	132.2	135.7	148.9	137.1	
(n.s.a.)	import volume	123.9	117.1	103.8	117.6	113.0	94.3	98.7	101.9	120.1	110.4	
Japan	export volume	134.9	156.5	159.0	163.0	164.8	159.4	154.0	155.6	167.1	196.9	199.6
(s.a.)	import volume	143.0	141.9	122.2	141.4	132.2	123.8	118.5	124.2	122.4	132.8	135.5
U.K.	export volume	121.8	130.1	124.9	133.4	126.5	128.9	122.6	120.0	128.3	132.1	137.3
(s.a.)	import volume	133.9	135.2	125.6	136.4	133.0	125.4	122.2	127.4	127.2	123.8	134.8
U.S.	export volume	133.7	145.7	141.9	133.9	146.6	141.9	140.4	133.8	151.5	143.3	
(n.s.a.)	import volume	130.9	126.6	112.1	127.4	126.6	112.6	104.6	111.7	119.9	127.0	
Average* percentage change from previous period (annual rate) for above countries:												
	export volume	13.9	9.4	-4.2	-11.0	9.9	-16.5	-0.7	-9.5	41.9	16.1	
	import volume	12.6	-0.4	-8.0	-8.6	-7.3	-26.3	-4.0	10.6	23.6	33.4	

* Weighted average using 1974 trade as weights.

Table 2. Merchandise Trade of Major Industrial Countries
(In billions of U.S. dollars at seasonally adjusted annual rates)[1/]

		1973	1974	1975	1974 III	1974 IV	1975 I	1975 II	1975 III	1975 IV	1976 I	1976 II
Canada	exports	25.4	33.4	32.8	35.6	34.6	32.4	32.2	32.8	33.7	36.1	38.3
	imports	22.7	31.6	33.4	33.5	34.6	33.6	33.4	33.0	33.6	37.0	37.8
	balance	2.7	1.7	-0.6	2.1	0.0	-1.2	-1.3	-0.2	0.2	-0.8	0.5
France	exports	36.6	46.6	53.2	48.2	49.3	54.7	54.5	52.4	51.4	55.2	57.2
	imports	35.2	50.1	51.8	53.4	50.4	53.0	50.0	50.4	53.7	57.0	58.2
	balance	1.5	-3.4	1.5	-5.2	-1.1	1.8	4.5	2.0	-2.4	-1.8	-1.0
Germany	exports	67.4	89.6	90.4	91.2	93.1	93.8	93.5	85.9	88.2	94.6	97.4
	imports[2/]	52.2	66.4	71.6	69.5	69.9	70.8	72.8	69.6	72.5	76.5	79.8
	balance	15.2	23.1	18.9	21.7	23.1	23.0	20.7	16.3	15.7	18.0	17.6
Italy[3/]	exports	22.1	29.8	34.4	32.6	31.9	33.6	33.7	34.7	35.1	33.7	34.6
	imports	26.0	38.3	35.6	42.2	38.9	35.3	33.8	35.4	39.2	38.5	38.8
	balance	-3.9	-8.4	-1.2	-9.6	-7.0	-1.7	-0.1	-0.7	-4.1	-4.8	-4.1
Japan	exports	36.1	54.0	55.0	57.0	60.1	58.6	54.6	51.8	55.1	62.8	64.7
	imports	32.4	52.9	49.7	54.0	54.3	51.1	46.6	49.0	51.9	52.0	51.9
	balance	3.7	1.1	5.4	3.0	5.8	7.5	8.0	2.8	3.2	10.9	12.9
U.K.	exports	28.8	37.2	41.6	39.7	39.0	43.4	41.6	39.4	42.1	43.5	43.4
	imports	34.4	49.5	48.7	51.5	51.5	51.5	48.0	47.8	47.7	47.0	50.3
	balance	-5.6	-12.3	-7.1	-11.8	-12.6	-8.1	-6.3	-8.4	-5.6	-3.8	-7.0
BALANCE FOR ABOVE SIX COUNTRIES		13.6	1.8	16.9	0.2	8.2	21.3	25.5	11.8	7.0	17.7	18.9
U.S.	exports	71.4	98.3	107.1	100.1	106.4	108.1	103.4	106.4	110.6	107.8	113.9
	imports	70.4	103.6	98.2	109.4	111.9	102.3	90.4	98.0	101.8	113.8	118.5
	balance	1.0	-5.3	9.0	-9.3	-5.5	5.7	13.0	8.4	8.8	-6.0	-4.7
BALANCE FOR ABOVE SEVEN COUNTRIES		14.6	-3.5	25.9	-9.1	2.7	27.0	38.5	20.2	15.8	11.7	14.2

Footnotes to table on next page.

During the current upswing in economic activity, strong exports have provided impetus to the recovery in Japan, the United Kingdom and, to some extent, France. In other countries, notably Canada and Germany, export volumes remain below 1974 peak levels, and only recently have exports shown some sign of becoming a major factor in the revival of economic activity.

During the first half of 1976 the trade surplus of the six major foreign industrial countries, taken together, increased by about $9 billion at an annual rate over the last half of 1975. The increase was attributable mainly to the sizeable increase in the Japanese surplus. In view of the problems of indebtedness and financing of the developing countries, it is interesting to note that although the trade surplus of the major foreign industrial countries with the world as a whole increased in the first quarter of 1976, their trade surplus with the non-oil-exporting developing countries declined from the previous quarter by about $4 billion at an annual rate.

In Japan, foreign trade has played a major role in the recovery, leading some observers to characterize the current upswing as "export-led". The increase in the current-account surplus accounted for about one-third of the increase of almmst 15 per cent at a seasonally

NOTES TO TABLE 2:
French and German trade on a customs basis; others on a balance of payments basis. Imports f.o.b., except f.a.s. for the U.S.. Details may not add to totals due to rounding.
1/ Data converted to dollars on the basis of average exchange rates for each period as published in the Federal Reserve Bulletin.
2/ Imports adjusted to f.o.b. by FRB staff.
3/ Seasonally adjusted and 1976I and II converted to balance of payments basis by FRB staff.

adjusted annual rate in real GNP in the first quarter of 1976. Japanese exports, in particular to the United States, have been very strong in large part due to stock replenishment by foreign importers of Japanese durable consumption goods. Japanese imports, on the other hand, until very recently remained virtually unchanged, probably because of carryover of high Japanese inventories of imported goods. This pattern resulted in large trade surpluses, averaging almost $12 billion at an annual rate, for the first half of 1976. In June, however, the seasonally adjusted volume of imports rose sharply, which may signal the beginning of an acceleration in Japanese imports. The trade balance thus is expected to decline somewhat during the second half of 1976, both because of the anticipated increase in imports, and because stock adjustment abroad, which contributed to the first-half export surge, should be completed.

The volume of French exports held up relatively well in 1975 compared to the world average, while import volume fell sharply, primarily reflecting stock liquidation. The merchandise account thus shifted from a deficit of $3-1/2 billion in 1974 to a surplus of $1-1/2 billion in 1975. This movement was reversed in the fourth quarter of 1975, as imports picked up sharply in pace with the economic upturn, and exports stagnated, resulting in a shift toward a deficit in the trade balance for the fourth quarter. The trade deficit has decreased, however, since the beginning of the year as exports have been growing slightly faster than imports. This improvement will probably not continue; the European drought is expected to have a substantial negative impact on the French agricultural trade balance, offsetting any further improvement in the other trade accounts during 1976.

As in the case of France, Italian exports did relatively well during the downturn, growing slightly in volume terms despite the weakness in Italian export markets. At the same time, the severity of the Italian recession produced a sharp drop in imports. In fact, Italian trade was near balance in the second quarter of 1975, a sharp turnaround from the deficit of nearly $10 billion at an annual rate during the third quarter of 1974. The beginning of the economic upturn and inventory rebuilding in Italy stimulated imports in the last quarter of 1975, when the merchandise trade deficit increased to an estimated $16 billion at an annual rate. So far in 1976, the deficit has continued at about that rate, but the slowdown in Italian economic activity and the depreciation of the lira should limit import growth and stimulate exports so that the trade account is expected to improve in the second half of this year.

Economic recovery in the United Kingdom during late 1975 and early 1976 was led by strong growth in export volume. Import volume fell during the same period due to the lagging position of the United Kingdom in the present cycle. In the second quarter of 1976, however, continued growth in export volume was overshadowed by a surge in imports, which, coupled with a deterioration in the U.K.'s terms of trade, doubled the merchandise trade deficit over the exceptionally low first-quarter figure. Despite the second-quarter increase, which was attributable in part to stockbuilding, the trade deficit for all of 1976 is expected to be slightly smaller than in 1975. The present incomes policy and the decline in sterling are expected to curb demand for imports and keep British exports competitive.

The drop in Germany's trade surplus was a major factor in the decline in German GNP last year, as German exports declined sharply in volume terms in the first quarter of 1975 and remained below the exceptionally high 1974 levels. Import volumes, which fell by a lesser amount in late 1974 and early 1975, resumed a slow upward trend in the second quarter of 1975 and have since continued rising. As a result, the perennial German trade surplus, seasonally adjusted at annual rates, declined in dollar terms from the peak of slightly over $24 billion in the first quarter of 1974 to about $16 billion in the fourth quarter of 1975, despite some improvement in the German terms of trade during the period. The decline in the surplus was larger in DM terms due to the appreciation of the DM relative to the dollar during the period. So far this year, both imports and exports have grown moderately, and the quarterly trade balance has increased slightly on a seasonally adjusted basis. Most observers predict that the German trade surplus will be somewhat smaller this year than the $19 billion recorded in 1975 due to the leading position of Germany in the cycle.

Weak external demand was the major factor in the slight economic downturn in Canada, as well. In real terms, Canadian exports fell throughout almost all of 1974 and 1975, while imports, responding to fairly bouyant domestic demand, remained relatively strong. These volume changes, combined with a slight deterioration in Canada's terms of trade during the period, caused the trade surplus to narrow during 1974 and fall into deficit during 1975. In response to the economic expansion abroad, particularly in the United States, Canadian exports have been growing moderately since late 1975 in both real and value terms. Canada's net export position is expected to improve throughout 1976, thereby strengthening the domestic economy.

The smaller OECD countries, taken as a group, recorded an unprecedented trade deficit of $22 billion in 1974, which decreased only marginally in 1975. This exceptionally large deficit persisted mainly because, while activity in the larger countries fell in late 1974 and early 1975, the GNP of the smaller countries in general continued to grow. Considering the lagged timing of their upswing, compared with the larger countries, a slight decline in the collective deficit of the smaller OECD countries to $17-1/2 billion in 1976 is expected.

APPENDIX A*

JULY REVISION TO THE NATIONAL INCOME AND PRODUCT ACCOUNTS

The overall contour of real economic activity was little changed by the July revision of the national income and product accounts.[1/] The level of nominal gross national product (GNP) was revised upward by $.2 billion in 1973, $6.3 billion in 1974 and $17.4 billion in 1975. The GNP price indexes were also revised and now indicate slightly larger advances in 1974 and 1975. On balance, on a year over year basis, real GNP is now estimated to have risen a bit more in 1973 and fallen only slightly less in each of the following two years (see Table I).

Quarterly real GNP growth rates are higher or unchanged in eight of the thirteen quarters covered by the revision. There was an especially large upward revision to real growth in 1975-II, a downward revision in each of the latter two quarters of 1975, and an upward revision in 1976-I. Prior to the revision real GNP showed a peak to trough decline of 6.6 per cent and this figure remains unchanged. Similarly, by 1976-I real GNP was previously estimated to have risen by 7 2 per cent from its trough and this figure has now een edged up to 7.3 per cent.

The most important implications of the revision are the following:

1. Personal <u>consumption</u> expenditures were revised up considerably starting in early 1975; as a result, by 1976-I the <u>saving rate</u> was reduced by about three quarters of a percentage point.

1/ This annual revision covers the three year period 1973-I to 1976-I and incorporates new source data that was not available when the prior estimates were made; in addition, seasonal factors were also updated.

* Prepared by Stephen Roach, Economist, National Income Section, Division of Research and Statistics.

2. Nominal purchases of goods and services by State and local governments were revised up markedly, but the revision in real purchases was much smaller. Prior to the revision the growth in nominal purchases slowed somewhat in 1975; these outlays are now shown to have risen at near peak rates for the year as a whole.

3. Rates of change in prices, using the GNP fixed-weighted index, were revised up on average by .4 percentage points in both 1974 and 1975. The largest upward revisions came in consumption prices and prices for State and local government purchases.

4. Revisions in the income accounts now show a weaker corporate profits picture than was indicated earlier, but this is due mainly to a larger capital consumption adjustment.

Personal Consumption Expenditures

Starting in 1975-I there were increasingly large revisions to personal consumption expenditures (PCE) and by 1976-I current dollar PCE was revised upward by $14.0 billion; over $10 billion of this revision was in services, $5½ billion was in durables and the level of non-durables was revised down over $1½ billion. Almost all of the upward revision in durables was in motor vehicles and parts, whereas for services it was more widespread. On average, over the five quarter period 1975-I to 1976-I, about two-thirds of the upward revision in nominal PCE was offset by upward revisions in prices--especially for services.

On balance, consumption activity is now shown to have recorded a stronger recovery than indicated by earlier estimates. After peaking in 1973-III real PCE is now estimated to have dropped 2.9 per cent before reaching its trough in 1974-IV--a figure unchanged by the revision; however, from this trough to 1976-I real PCE is now estimated to have risen by 7 per cent and this is close to a full percentage point higher than the gain indicated prior to the revision. Not surprisingly, the saving rate was reduced throughout the recovery period so that by 1976-I the rate is now estimated to have been 6.9 per cent rather than the 7.6 per cent previously indicated. In particular, the saving rate now shows a sharper downward drift beginning in 1975-III. This revision in the saving rate came despite average upward revisions in disposable personal income of $6 billion in recent quarters (see below).

Business Fixed Investment

By the end of the period covered by the revision, current dollar business fixed investment (BFI) was lowered by $4.7 billion, but most of this revision came in 1975-IV and 1976-I. Constant dollar BFI was not revised down proportionally as there were partially offsetting downward adjustments to prices. The revisions in outlays in these two quarters are largely based on the results of the Commerce plant and equipment survey, which were not available when the quarterly GNP estimates were made. From its peak in 1974-I to the trough in 1975-III the decline in real BFI is now 17.5 per cent and this is essentially the same as that shown previously. But, because of the downward revision beginning in 1975-IV, the investment recovery through 1976-I now appears even weaker as real BFI rose by only 2.3 per cent from its trough level compared to the 4.4 per cent gain shown earlier.

Residential Construction

Housing outlays were revised upward beginning in late 1974 and by the end of the revision period (1976-I) were $2.7 billion higher. Most of this revision was also carried through to real outlays as housing prices were very little changed after the revision. The characteristics of the sharp cyclical swing in housing expenditures were little affected by the revision. From peak levels in 1973-I real housing outlays dropped 45 per cent to the 1975-I trough--only a bit less than the previous data indicated. Similarly, for the recovery starting in 1975-I real housing rose 24.5 per cent by 1976-I, virtually the same as indicated previously.

Change in Business Inventories

In both current and constant dollars the level of total business inventory investment by 1976-I was little changed by the July revision. However, for the nonfarm sector the rate of accumulation was revised upward for 1974-II and downward for the four quarters that followed; over the same four quarters there was an upward adjustment to farm inventory accumulation. Furthermore, the revision now shows a larger rate of liquidation for nonfarm inventories in 1975-IV.

Movements in the inventory/sales ratios were changed very little by the revision. However, there was a definitional change in the nonfarm ratio and this resulted in a downward level adjustment over the entire postwar period.[2/] The inventory/sales ratio for total business inventories is now indicated to have fallen a bit further in 1976-II--continuing the drop from the extremely high peak level of 1974-IV.

Net Exports

Net exports were very little changed by the July revision. By 1976-I net exports were less than $1 billion lower than indicated earlier. Beginning in 1975 current dollar imports are now a bit stronger than they appeared to be previously. In addition over the 1973-74 period there were substantial upward revisions in implicit import prices. The international sector has been subjected to volatile movements over the past several years and the revisions have done little to alter the magnitudes of the various swings in the U.S. net export position.[3/]

Federal Sector

The pattern of federal government purchases of goods and services was little changed by the revision. utlays were revised upward in all quarters of 1975 and there was a particularly sharp upward revision in 1975-II; however, in 1976-I outlays are about $2 billion lower and now show a decline of over $1 billion from the prior quarter. The federal sector deficit (NIA basis) is somewhat smaller

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2/ Previously, nonfarm sales were used to calculate this ratio, but because of the unreliability of farm sales data, total business sales (including final sales by farms) are now being used in the denominator.

3/ More specifically, after peaking in 1974-I, real net exports dropped 19 per cent by 1974-III (prior figure was 19.2 per cent) then rose 63.1 per cent by 1975-II (prior figure was 64.9 per cent) then dropped 31.7 per cent by 1976-I (prior figure was 30.1 per cent).

in 1975 than our prior data indicated and by 1976-I is almost $5 billion less than the prior indication. About $4 billion of this reduction comes from an upward revision to receipts--almost solely in corporate tax accruals.

State and Local Government Sector

Growth in nominal State and local purchases was revised up substantially for 1975 from 9.8 per cent to 11.9 per cent--almost as high as the peak 1974 growth rate. Prices were also revised up, and so the upward revision in real purchases was considerably smaller than for current dollar purchases. For 1975 as a whole, for example, nominal purchases were revised up by $6.5 billion but real outlays were raised by only $1.9 billion. On a quarterly basis, the revision of nominal purchases of goods and services was as high as $8.7 billion in late 1975 but then fell back to $7.4 billion in 1976-I. The resulting pattern of spending now reflects a more distinct slowdown in late 1975 and early 1976--presumably due to the New York City crisis.

The upward adjustment in expenditures, combined with a smaller upward revision of receipts, caused the surplus of the State and local sector to be revised down considerably; the $6.9 billion surplus in 1975 is almost $3 billion below the figure previous data suggested. The "operating surplus or deficit"--which excludes the social insurance funds--was also revised downward[4/] beginning in the latter half of 1975; however, the revised data still show an improved fiscal position for the State and local sector in the first quarter of this year.

Prices

As pointed out above the major comprehensive price indexes were revised up somewhat beginning in early 1974. The implicit GNP deflator is now estimated to have risen by 10.0 per cent in 1974 and 9.3 per cent in 1975; the latter inflation rate is about .5 percentage point higher than the indication before the revision. Only a small part of this revision can be attributed to the revised mix of GNP as upward revisions to the GNP fixed-weighted price index were only a bit less than those for the implicit deflator[5/]

4/ Furthermore, there was an increasingly large upward revision to social insurance funds.

5/ It should be pointed out however, that upward revisions to the fixed-weighted price index for gross domestic business product averaged only about a quarter of a percentage point over the years 1974-75.

As to the composition of price revisions for 1974 and 1975, the largest upward revisions on a fixed-weighted basis were in consumption and State and local government. The change in the PCE price index was revised up about .3 percentage points in 1974 as well as in 1975; in both years the largest upward revision was in the services component although the index for PCE goods prices was revised up as well. In the government sector the fixed-weighted price index is now estimated to have risen about one percentage point more for 1975 than indicated previously and this is solely attributable to upward revisions in the index for State and local government purchases. Fixed-weighted price changes for business fixed investment were raised .5 percentage point in 1974 but lowered by about the same amount in 1975.

As to the quarterly pattern of the revised price picture the upward revisions in the major indexes were not really significant until 1975-I. Revisions to aggregate price movements were slight through the remainder of 1975 and for 1976-I the small gain in prices that had been previously indicated was revised down even further.

Income

Table II highlights the impact of the July revisions to the income side of the accounts--given the upward revisions in nominal GNP. Most significantly, by 1976-I the profits share (with IVA and capital consumption adjustment) was reduced considerably from the prior indication as was the net business component of personal interest income. Large offsetting upward adjustments were made to the share of proprietors income--especially nonfarm--and to the share of the capital consumption allowance; the share of wages and salaries is only a bit higher than shown previously. On a quarterly basis, the level of corporate profits (with IVA and capital consumption adjustment) was revised down throughout the period covered by the revision.[6/] By 1975-II the downward revision totaled $10 billion; thereafter, this revision was a little bit less. From trough levels in 1975-I the recovery in profits over the following four quarters was little changed by the revision.

The revisions in disposable personal income ranged from $4½ to $7 billion over the period 1975-II to 1976-I. The revised personal income data indicate less severe contractions of real personal income and real wage and salary disbursements during the 1973-75 period than did the data prior to the revision.

6/ However, by 1976-I a larger capital consumption adjustment accounted for over three-fourths of this revision. In essence, this adjustment is used to reconcile depreciation reported in tax returns with that implied by a more appropriate measure of economic replacement.

TABLE A-I

JULY 1976 REVISIONS IN GNP
(PER CENT CHANGES FROM PRECEDING PERIOD; QUARTERLY FIGURES AT COMPOUND ANNUAL RATES)

	GNP: Current Dollars			GNP: 1972 Dollars		
	Revised	Previously Published	Difference	Revised	Previously Published	Difference
1973-I	15.9	15.8	.1	9.5	8.8	.7
II	7.5	7.4	.1	.4	.2	.2
III	9.4	10.3	-.9	1.7	2.7	-1.0
IV	11.9	10.4	1.5	2.0	1.4	.6
1974-I	5.3	5.5	-.2	-3.9	-3.9	.0
II	8.0	6.0	2.0	-3.1	-3.7	.6
III	9.5	9.9	-.4	-2.6	-2.3	-.3
IV	5.0	4.8	.2	-6.8	-7.5	.7
1975-I	-.8	-2.1	1.3	-9.9	-9.2	-.7
II	10.4	7.7	2.7	5.6	3.3	2.3
III	19.1	19.9	-.8	11.4	12.0	-.6
IV	10.6	12.1	-1.5	3.3	5.0	-1.7
1976-I	12.6	12.6	.0	9.2	8.7	.5
1973	11.6	11.5	.1	5.5	5.3	.2
1974	8.2	7.7	.5	-1.7	-1.8	.1
1975	7.3	6.5	.8	-1.8	-2.0	.2

TABLE A-II

INCOME CHARGES AGAINST GNP
(SHARE OF VALUE OF PRODUCT IN PER CENT)

	1976-I	
	Old	Revised
GNP	100.0	100.0
Compensation	60.6	60.8
Wages and Salaries	52.5	52.7
Supplements	8.1	8.1
Proprietors Income 1/	5.2	5.7
Rental Income 2/	1.4	1.4
Net Interest	5.5	4.8
Corporate Profits 1/	7.6	7.0
Before Taxes	8.8	8.6
After Taxes	5.3	4.9
Capital Consumption Allow.	10.1	10.6
Indirect Taxes & Other 3/	9.5	9.7

1/ With IVA and capital consumption adjustment.

2/ With capital consumption adjustment.

3/ Also includes business transfer payments, statistical discrepancy and net subsidies of government enterprises.