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CONFIDENTIAL (FR)

July 13, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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July 13, 1977

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

	Latest Data			Per Cent Change from		
	Period	Release Data	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rate)		
Civilian labor force	June	7-8-77	97.6	6.0	4.6	3.1
Unemployment rate (%)[1/]	June	7-8-77	7.1	6.9	7.3	7.6
Insured unemployment rate (%)[1/]	June	7-8-77	3.7	3.7	3.9	4.5
Nonfarm employment, payroll (mil.)	June	7-8-77	82.1	2.0	3.2	3.4
Manufacturing	June	7-8-77	19.6	-1.5	3.5	3.1
Nonmanufacturing	June	7-8-77	62.5	3.1	3.2	3.5
Private nonfarm:						
Average weekly hours (hr.)[1/]	June	7-8-77	36.2	36.3	36.3	36.1
Hourly earnings ($)[1/]	June	7-8-77	5.21	5.20	5.12	4.85
Manufacturing:						
Average weekly hours (hr.)[1/]	June	7-8-77	40.5	40.4	40.4	40.2
Unit labor cost (1967=100)	May	6-29-77	150.9	11.2	7.3	5.8
Industrial production (1967=100)	May	6-15-77	137.8	13.2	13.8	6.3
Consumer goods	May	6-15-77	143.6	5.0	7.4	4.5
Business equipment	May	6-15-77	149.3	21.3	17.3	10.9
Defense & space equipment	May	6-15-77	80.3	15.1	9.2	2.7
Materials	May	6-15-77	138.5	14.9	18.4	6.0
Consumer prices (1967=100)	May	6-21-77	180.9	7.3	8.1	6.7
Food	May	6-21-77	192.4	8.8	11.3	6.4
Commodities except food	May	6-21-77	164.7	5.1	4.9	5.8
Services	May	6-21-77	192.7	8.2	9.1	7.7
Wholesale prices (1967=100)	June	7-8-77	194.1	-6.7	3.8	6.2
Industrial commodities	June	7-8-77	194.2	3.1	5.2	7.2
Farm products & foods & feeds	June	7-8-77	191.4	-41.2	-1.7	2.4
Personal income ($ bil.)[2/]	May	6-17-77	1507.2	7.6	11.7	10.6
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	May	6-30-77	59.4	1.2	7.7	15.7
Capital goods industries	May	6-30-77	18.3	-1.1	13.2	21.5
Nondefense	May	6-30-77	14.9	.0	4.2	17.9
Defense	May	6-30-77	3.4	-5.8	83.9	40.1
Inventories to sales ratio:[1/]						
Manufacturing and trade, total	Apr.	7-12-77	1.45	1.43	1.49	1.48
Manufacturing	May	6-30-77	1.58	1.56	1.59	1.62
Trade	Apr.	7-12-77	1.34	1.33	1.36	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders[1/]	May	6-30-77	.628	.630	.633	.621
Retail sales, total ($ bil.)	June	7-12-77	59.2	.0	-.5	9.7
GAF	June	7-12-77	14.1	-1.9	-1.2	6.4
Auto sales, total (mil. units)[2/]	June	7-8-77	11.8	1.1	-3.0	12.1
Domestic models	June	7-8-77	9.6	5.8	-5.0	5.5
Foreign models	June	7-8-77	2.2	-15.5	6.7	56.0
Housing starts, private (thous.)[2/]	May	6-16-77	1,929	1.6	7.0	34.4
Leading indicators (1967=100)	May	6-29-77	130.6	-.2	2.4	4.9

[1/] Actual data used in lieu of per cent changes for earlier periods.

[2/] At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Although the expansion in economic activity continued to be vigorous for the second quarter as a whole, data received late in the quarter indicate some slackening in the pace of growth. Gains in employment and industrial production moderated in June, and retail sales were little changed over the past two months, despite continued strength in new auto purchases. Incoming data on investment activity in May were mixed. Inventory building advanced substantially and there was a slowing of business capital spending commitments. Residential construction activity remained vigorous in May, and purchases by State and local governments appear to have advanced sharply. Price increases have moderated at both the consumer and wholesale levels in recent months, mainly as a result of more favorable developments in the food sector.

Industrial production is tentatively estimated to have advanced by three-fourths of 1 per cent in June--less than the May rise, but still a strong increase. Production of final products advanced briskly in June, paced by over a 5-1/2 per cent rise in auto assemblies after two months of small declines. The growth of materials output slowed, as raw steel production leveled off. Output of business equipment, which appears to have registered another strong monthly gain in June, accelerated to an 18 per cent annual rate of rise between the first quarter and May, reflecting widespread strength.

GROWTH IN BUSINESS EQUIPMENT PRODUCTION

(Per cent change at compound annual rate from preceding comparable period; based on seasonally adjusted data)

	Relative Importance total=100	1975	1976 HI	1976 HII	1977 QI	1977 May[1/]
Industrial Equipment	6.77	- 6.7	5.5	7.3	3.6	17.9
Building and mining equipment	1.44	5.4	.4	10.3	20.6	25.3
Manufacturing equipment	3.85	-11.7	8.0	8.2	4.1	22.5
Power equipment	1.47	- 9.7	6.5	2.6	.4	1.6
Commercial, Transit and Farm Eq.	5.86	-13.0	7.7	7.7	17.0	18.3
Commercial equipment	3.26	-13.5	10.3	11.9	10.8	16.5
Transit equipment	1.93	-14.4	.2	2.4	20.6	23.9
Farm equipment	.67	- 6.5	11.9	5.9	59.6	16.5

[1/] Changes based on first quarter 1977 to May, 1977.

From the first to the second quarter, industrial output rose at about a 13 per cent annual rate, as compared to an average rate of 4 per cent over the preceding two quarters.

Recent gains in production have been associated with increases in capacity utilization. The operating rate in the manufacturing sector edged up to 83.7 per cent in June, with both primary and advanced processing industries operating close to their long-term averages. Utilization rates in the materials sectors, however, are generally still below their 1967-1975 averages and far below previous peak levels. Of course, there are some industries, such as aluminum and petroleum refining, where capacity tightness is apparent.

Labor market conditions were little changed in June. Nonfarm payroll employment rose by 135,000 in June--less than half the average monthly increase recorded since last November. Growth was concentrated among service-producing industries. Employment in manufacturing--which had moved up strongly in recent months--declined slightly in June, reflecting moderate reductions for most nondurable goods industries. The factory workweek edged up by 0.1 to 40.5 hours.

The unemployment rate rose by 0.2 to 7.1 per cent in June as the gain in total employment fell short of another strong rise in the labor force. To a large extent, higher unemployment in June occurred among women and youth seeking part-time jobs. About three-fourths of the rise in the civilian labor force since December--1.7 million--has

CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Apr. 76 to Oct. 76	Oct. 76 to June 77	Recent Months: Mar. 77 to Apr. 77	Apr. 77 to May 77	May 77 to June 77
			Average monthly change		
Nonfarm payroll employment	85	280	291	235	135
Manufacturing	-11	79	124	71	-24
Durable	0	58	53	50	10
Nondurable	-12	21	71	21	-34
Construction	-6	40	83	25	31
Trade		52	14	23	11
Services and finance	59	75	43	41	88
State and local Government	13	19	21	64	19
Total household employment	68	368	548	385	271
Nonagricultural	83	364	404	259	319

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	May	June
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.0	6.9	7.1
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.1	5.3	5.0
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.9	6.6	7.2
Teenagers	19.2	18.8	18.8	19.1	18.6	18.1	17.9	18.6
Household heads	5.0	4.9	5.3	5.3	4.8	4.4	4.5	4.3
Married men	4.1	4.1	4.4	4.4	3.9	3.5	3.6	3.4
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.5	6.5	6.5
Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.0	6.8	7.1
1975 factors	7.8	7.5	7.6	7.9	7.6	7.1	7.1	7.0

been among women and teenagers. The jobless rate for adult men declined to 5.0 per cent in June.

Following strong gains through April, retail sales exclusive of autos and mainly nonconsumer items leveled off in May and June. Sales at general merchandise outlets declined in both months after showing exceptionally strong increases earlier this year. Sales at apparel outlets also continued to trend lower. Despite the weak May-June performance, the 2-1/2 per cent gain in this series for the second quarter was somewhat above the average pace since the beginning of 1976.

Unit auto sales were at a near record pace in the second quarter. In June, sales of domestic new cars rose around 5 per cent to a 9.6 million unit rate, as both small and large sales moved up. On the other hand, sales of imports declined from their recent record-breaking pace to a 2.2 million unit selling rate. Foreign models captured 18.2 per cent of total sales--a figure well above the average market share of 14 per cent over the last decade.

Results of recent consumer surveys are consistent with the continued strength in automotive markets. The Conference Board consumer survey--conducted in late May and early June--reported a sharp improvement in buying intentions for durable goods, especially automobiles and homes. Similar to results reported by the Michigan Survey Research Center a month earlier, the Conference Board index of consumer confidence showed only modest improvement, moving upward on the strength

RETAIL SALES

(Per cent change from preceding comparable period; based on seasonally adjusted data)

	1976	1977				
	QIV	QI	QII	Apr.	May	June
Total Sales	3.5	3.7	2.1	-.1	-.4	.0
(Real)[1/]	2.6	1.6	n.a.	-1.0	-.8	n.a.
Total less auto and nonconsumption items	3.2	1.8	2.5	.9	.0	.1
GAF	4.3	.1	2.1	1.3	-.6	-1.9
Durable	3.9	7.3	1.6	-1.7	-1.3	-.2
Auto	4.3	11.0	-.2	-3.6	-1.7	.3
Furniture and appliances	4.1	1.6	4.3	1.2	-.5	1.0
Nondurable	3.3	2.0	2.3	.8	.1	.1
Apparel	1.8	-.7	-3.8	-.7	-.1	-8.8
Food	2.3	1.4	3.8	.4	1.6	.6
General merchandise	5.1	-.1	3.2	1.9	-.8	-1.0
Gasoline	4.8	2.7	3.8	3.5	.5	-.2

[1/] Deflated by all commodities SA consumer price index.

AUTOS SALES

(Seasonally adjusted, millions of units)

	1976	1977					
	QIV	QI	QII	Mar.	Apr.	May	June
Total	10.0	11.1	11.7	12.2	11.7	11.7	11.8
Imports	1.7	1.8	2.4	2.0	2.4	2.6	2.2
Domestic	8.3	9.3	9.3	10.1	9.3	9.1	9.6
Large	5.2	6.2	5.9	6.8	6.0	5.7	6.1
Small	3.1	3.1	3.3	3.3	3.2	3.3	3.5

NOTE: Parts may not add to the total because of rounding.

of more favorable evaluations of present business and employment conditions. Expectations for business conditions, employment, and income six months ahead deteriorated somewhat.

Earlier this year increases in consumption were supported by rapid growth of personal income. In April and May, however, personal income growth slowed as declines in farm income and transfer payments partially offset strong increases in wage and salary disbursements. In June, a smaller increase in wage and salary income appears likely to have occurred reflecting the moderate growth of employment and wages.

Unlike consumption, capital spending has yet to provide a consistent upward thrust to the expansion in aggregate activity. Indeed, second-quarter investment gains now appear to be more modest than indicated earlier. Recent gains in total equipment outlays appear to be weaker than the average pace of the last year mainly because expenditures on transportation equipment have leveled off after a very strong first-quarter rise. With shipments of nondefense capital goods in May 3 per cent above the first-quarter level, expenditures on nonvehicular machinery apparently continue to advance at the average rate of the last year.

Commitments data also suggest some hesitation. Although the composite measure of total contracts and orders for plant and equipment rose at an average pace of 8.0 per cent in April and May,

PERSONAL INCOME
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976				1977		
	QI	QII	QIII	QIV	QI	Mar.[1]	Apr.[1]
Current dollars							
Total personal income	10.1	9.5	7.3	10.7	12.4	18.3	9.0
Nonagricultural income	12.6	7.8	9.2	11.2	11.4	18.2	9.6
Wage & salary disbursements	12.6	9.4	7.8	10.7	11.8	17.9	11.5
Private	14.1	10.1	8.2	10.5	13.4	21.0	12.6
Manufacturing	18.0	10.9	5.7	8.6	15.8	26.6	10.7
Government	7.2	7.1	6.7	11.5	6.2	6.0	7.2
Nonwage income	7.2	9.3	6.3	10.7	14.6	18.7	5.2
Transfer payments	14.1	-2.3	10.9	9.0	13.2	20.7	4.7 -
Dividends	11.7	16.7	12.1	28.6	-1.1	16.0	9.4
Constant dollars[2]							
Total personal income	4.7	4.4	1.5	6.1	3.7	10.8	-0.4
Nonagricultural income	7.1	2.8	3.3	6.6	2.8	10.7	0.2
Wage & salary disbursements	7.0	4.4	2.0	6.1	3.2	10.4	2.0

1/ Per cent change at annual rate, not compounded.
2/ Deflated by the CPI, seasonally adjusted.

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

	1976			1977	
	QII	QIII	QIV	QI	QI-May
Contracts and orders for plant & equip.[1/]					
Current dollars	-.6	.3	7.5	5.6	16.1
1972 dollars	-1.3	-1.1	6.3	4.5	14.5
New orders received by manufacturers					
Total durable goods					
Current dollars	5.5	-.8	6.0	5.4	5.3
1967 dollars[2/]	4.4	-2.3	3.5	3.7	4.0
Nondefense capital goods					
Current dollars	5.6	5.8	3.4	6.0	2.3
1967 dollars[2/]	4.5	4.4	1.6	4.4	.9
Construction contracts for commercial and industrial buildings[3/]					
Current dollars	-4.1	1.7	16.8	0	-4.4
Square feet of floor space	8.0	-4.9	4.8	8.5	10.0

1/ The Commerce Department creates this series by adding new orders for nondefer capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuildings (e.g., electric utilities, pipelines, etc.).
2/ FR deflation by appropriate WPI.
3/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

most of the strength was due to several large contracts for power plants classified in the volatile nonbuilding component. Contracts for commercial and industrial buildings (measured in dollar value) in April and May averaged 1.5 per cent below the first-quarter level. Furthermore, new orders for nondefense capital goods showed no increase in May and for the first two months of the quarter were only 2.3 per cent above the first-quarter average--less than half the rate of increase since the beginning of 1976.

The book value of manufacturing inventories rose at a $24.7 billion annual rate in May, the largest monthly increase since December 1975. The average April-May rise was almost twice as rapid as that recorded in the first quarter. As was the case in April, the May increase in manufacturing inventories was almost evenly split between durable and nondurable goods producers. Nondurables accumulation has been particularly rapid recently; the $11 billion April-May average (annual rate) was over three times the first-quarter pace. While inventories at all stages of processing rose in May, the accumulation was most rapid for finished goods and for materials and supplies. The step-up in manufacturing accumulation over the past two months came as shipments edged off slightly. The manufacturing inventory-sales ratio increased for the second consecutive month in May, however, the ratio remained at a relatively low level. Wholesale trade inventories changed little in May.

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book value; billions of dollars)

	1975	1976				1977		
	QIV	QI	QII	QIII	QIV	QI	Apr.	May
Manufacturing and trade	-.4	23.1	31.5	29.6	10.3	32.8	32.9	n.a.
Manufacturing	.6	7.5	14.2	15.4	6.5	11.2	16.4	24.7
Durable	-4.4	1.7	6.8	6.8	6.4	7.8	6.1	12.4
Nondurable	5.0	5.8	7.5	8.6	.0	3.3	10.4	12.3
Trade, total	-1.0	15.6	17.3	14.2	3.9	21.6	16.5	n.a.
Wholesale	-2.0	5.1	9.0	4.3	1.6	9.7	6.2	1.5
Retail	1.0	10.5	8.3	9.9	2.2	12.0	7.6	n.a.
Auto	-.9	1.1	.1	4.8	1.3	2.2	-.9	n.a.

INVENTORY RATIOS

	1974	1975	1976		1977		
	QI	QI	QIII	QIV	QI	Apr.	May
Inventory to sales:							
Manufacturing and trade	1.50	1.66	1.53	1.51	1.47	1.45	n.a.
Manufacturing	1.65	1.91	1.67	1.65	1.58	1.56	1.58
Durable	2.04	2.43	2.04	2.03	1.93	1.91	1.91
Nondurable	1.22	1.36	1.27	1.25	1.20	1.18	1.21
Trade, total	1.35	1.42	1.38	1.36	1.36	1.34	n.a.
Wholesale	1.12	1.25	1.22	1.22	1.22	1.19	1.18
Retail	1.53	1.56	1.51	1.47	1.47	1.44	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.518	.591	.640	.632	.635	.630	.628

Housing construction continues to be a source of support. Total private housing starts remained at an advanced pace in May, edging up 2 per cent to an annual rate of 1.93 million units. This was 9 per cent above the average for the fourth and first quarters. Single-family starts in May rose to 1.46 million units, as market conditions in this sector remained strong. Sales of existing units in May reached a near record of 3.45 million units--a 4.5 per cent increase from the previous month and 7 per cent above the first-quarter pace. New home sales, however, edged down further in May and were 16 per cent below the exceptionally strong first-quarter average.

While speculation in the California housing market continues to receive considerable attention, informal contacts with industry sources suggest some lessening of this type of activity. However, the only available regional data--average prices of existing homes sold in May--showed no moderation of housing price increases in the West.

Indicators of State and local government activity suggest a sharp rise in spending in the second quarter. The value of construction put-in-place increased strongly in May for the fourth consecutive monthly increase from the weather-affected low last winter. Since January, construction activity in this sector has advanced by almost a fourth, but it remains well below the 1975 peak. At the same time, employment increased moderately for the second quarter as a whole

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

	1976			1977			Per cent change[3] from:	
	QII	QIII	QIV	QI[1]	Apr.[1]	May[2]	Month ago	Year ago
Single & Multifamily								
Permits	1.13	1.34	1.53	1.52	1.56	1.61	+ 3	+39
Starts	1.44	1.57	1.77	1.76	1.90	1.93	+ 2	+34
Under construction[4]	1.06	1.11	1.19	1.24	1.28	n.a.	+ 3	+20
Completions	1.33	1.37	1.39	1.59	1.51	n.a.	-11	+19
Single-family								
Permits	.81	.89	1.04	1.07	1.03	1.07	+ 4	+33
Starts	1.09	1.19	1.28	1.31	1.43	1.46	+ 2	+34
Under construction[4]	.61	.64	.69	.74	.75	n.a.	+ 3	+26
Completions	.99	1.05	1.05	1.19	1.20	n.a.	- 3	+21
Multifamily								
Permits	.32	.45	.49	.45	.53	.54	+ 1	+53
Starts	.34	.39	.49	.45	.47	.47	--	+36
Under construction[4]	.46	.47	.51	.51	.52	n.a.	+ 3	+13
Completions	.34	.32	.35	.39	.31	n.a.	-34	+12
Mobile home shipments	.24	.24	.26	.27	.25	.24	- 4	- 2

[1] revised

[2] preliminary

[3] Per cent changes based on latest available data.

[4] Seasonally adjusted, end of period.

following a decline in the first quarter. However, average growth during the first half of 1977 was only 1.4 per cent at an annual rate, moderate by historical standards.

Despite the recent surge, State and local spending in the fiscal year just ended remained quite modest relative to revenues. Over the past four quarters, their operating surplus (net of pension funds) averaged an estimated $4.5 billion--a level only matched during the start-up period of revenue sharing. Great regional diversity of fiscal positions exists. Surpluses seem to be concentrated in a few energy-rich Southern and Western states while many financially troubled starts in the Northeast have raised tax rates in order to keep budgets in balance.

The Federal budget during the month of June is estimated to have been in surplus by $8-1/2 billion; this allowed the Treasury to pay down some marketable debt as well as to increase its cash balance considerably. The June surplus was aided by an expected, large inflow of corporate tax settlements on 1976 profits. In addition, spending in June was little changed from the $33.7 billion level recorded in May. The Administration's recently released mid-year budget review anticipates deficits of $48 billion in fiscal year 1977 and about $61.5 billion in fiscal year 1978. (See Appendix A.)

Recent price data show some moderation from the exceptionally rapid advances experienced earlier in the year. Consumer prices rose 0.6 per cent in May--below the April (and first-quarter

RECENT CHANGES IN CONSUMER PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 April	1977 May
All items	100.0	7.0	5.0	-.8	10.0	9.4	7.3
Food	23.7	6.5	.2	.8	14.6	17.9	8.8
Commodities (nonfood)	38.8	6.2	4.8	3.6	7.4	4.4	5.1
Services	37.5	8.1	8.5	6.3	9.8	9.5	8.2
Memoranda:							
All items less food and energy 2/3/	68.9	6.7	6.9	5.5	8.3	6.9	6.9
Petroleum products2/	4.5	10.1	-2.2	9.7	7.1	10.8	9.5
Gas and elecricity	2.9	14.2	9.8	15.4	10.7	8.7	10.4

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

RECENT CHANGES IN WHOLESALE PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)[1/]

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 QII	1977 June
All commodities	100.0	4.2	3.9	5.3	10.2	4.0	-6.8
Farm and food products	21.6	-.3	1.0	-3.2	19.1	-1.7	-41.2
Industrial commodities	78.4	6.0	5.0	7.8	7.9	5.3	3.1
Materials, crude and intermediate[2/]	49.1	5.4	5.2	8.3	9.1	4.2	1.8
Finished goods							
Consumer nonfoods	18.7	6.7	3.3	6.4	8.5	6.5	4.9
Producer goods	12.1	8.2	5.8	7.0	5.5	6.3	5.3
Special group:							
Industrial commodities excluding fuels and related products and power	67.7	5.0	5.8	6.4	6.4	4.0	2.6
Consumer foods	10.4	5.5	-1.3	-3.2	12.7	13.8	-15.4

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.

average) rate of increase of about 0.8 per cent--but still distinctly higher than the typical increases in 1976. Moreover, wholesale prices fell 0.6 per cent in June, primarily led by decreases in food but helped by moderation in key commodity prices. Over the second quarter the wholesale price index increased at only a 4.0 per cent annual rate.

The recent improvement in price trends has been concentrated in the food area--a key contributor to the acceleration in prices since the end of 1976. Consumer food prices in May rose 0.7 per cent, as compared with 1.5 per cent in April and an average monthly increase of 1.2 per cent for the first three months of 1977. This moderation resulted mainly from a sharp decline in the price of fresh vegetables, as supplies became available from areas unaffected by the severe winter conditions. Nevertheless, there were continued price increases at retail for coffee, milk, and pork. Some further moderation of retail food price increases is suggested by recent declines in wholesale prices of farm products and consumer finished foods. Nonfood consumer goods rose 0.4 per cent in May, the same as in March and April but well below the rapid pace experienced this past winter.

Wholesale prices of industrial commodities rose by only 0.3 per cent in June, and at a 5.3 per cent annual rate over the second quarter, the slowest quarterly rate since the second quarter of 1976. Excluding the energy group, industrial prices were up

0.2 per cent in June and at a 4.0 per cent annual rate for the second quarter. Declines in textile and metal prices in June--as well as a moderation in energy price increases--helped hold down the overall index. However, the effect of the recent price increases in steel and aluminum were not yet reflected in the June figures.

There was also some moderation evident in labor costs, as the private nonfarm hourly earnings index rose at a 6.0 per cent annual rate in the second quarter--down from the first-quarter pace of 8.2 per cent which included the effects of the final round of minimum wage adjustments legislated in 1974. Over the first half of 1977, the index rose 6.7 per cent--about in line with last year's 6.9 per cent rate. However, the shifting mix of employment to higher wage industries and the growth of overtime hours caused gross average hourly earnings to accelerate in the second quarter to an 8 per cent annual rate.

HOURLY EARNINGS INDEX[1/]

(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	May[2/]	June[2/]
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.0	5.7	3.7
Construction	5.6	7.4	5.3	3.6	6.0	3.2	-2.2	13.8
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.4	9.2	6.9
Trade	5.2	5.7	6.7	8.2	9.4	5.7	4.1	-1.1
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	6.1	2.7	2.4
Services	8.3	6.6	4.8	7.8	10.9	5.2	6.7	1.8

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

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

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
		June $ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	June	34.87	5.2	6.6	3.2
Nonborrowed reserves	June	34.61	3.3	4.8	2.9
Money supply					
M1	June	322.0	4.9	8.4	6.2
M2	June	772.7	8.0	8.8	10.7
M3	June	1299.0	9.3	9.7	12.3
Time and savings deposits (less CDs)	June	450.7	10.2	9.2	14.1
CDs	June	64.0	1.7 2/	1.8 2/	-5.2 2/
Thrift deposits (S&Ls + MSBs + Credit Unions)	June	526.3	11.3	11.1	14.9
Bank credit (end of month)	June	829.5	8.9	11.2	10.1

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	7/6/77	5.35	.04	.76	-.02
Treasury bill (90 day)	"	7/6/77	5.06	.02	.50	-.32
Commercial paper (90-119 day)	"	7/6/77	5.38	-.08	.63	-.37
New utility issue Aaa	"	7/8/77	8.14	.03	-.12	-.57
Municipal bonds (Bond Buyer)	1 day	7/7/77	5.63	-.09	-.16	-1.15
FNMA auction yield (FHA/VA)		7/11/77	8.72	-.05	—	-.33
Dividend price ratio (common stocks)	wk endg.	7/6/77	4.59	.08	.09	.73
NYSE index (12/31/65=50)	end of day	7/11/77	54.65	.85	.92	.92

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1977	Year to Date 1976
			$ billions		
Credit demands					
Business loans at commercial banks 1/	June	2.4	-	9.2	-2.4
Consumer instalment credit outstanding 1/	May	2.5	1.5	11.8	6.6
Mortgage debt outstanding (major holders) 1/	April	7.9	4.7	25.2	20.0
Corporate bonds (public offerings)	June	2.2e	3.1	11.8e	15.0
Municipal long-term bonds (gross offerings)	June	5.7e	3.1	24.1e	17.6
Federally sponsored agcy. (net borrowing)	June	.7	.6	3.3	1.0
U.S. Treasury (net cash borrowing)	July	1.3	6.0	17.9	39.4

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate credit demands increased in June, boosting the second quarter's seasonally adjusted total of funds raised by the domestic nonfinancial sector to an amount above that in the first quarter. Business demands for funds accelerated in June due largely to strong short-term borrowing, and State and local governments issued a record volume of long-term debt. The Treasury continued its debt lengthening policy, but in a much reduced volume, by redeeming bills and issuing a similar amount of coupon securities, while household mortgage and consumer debt apparently continued to grow strongly.

Rates of expansion of the major monetary aggregates also strengthened somewhat in June. After showing essentially no growth in May, M_1 resumed growing in June; its second quarter growth rate was quite strong, however, due to April's unprecedented surge. Growth of M_2 also advanced in June, in association with faster growth of M_1 and time deposits. The recent moderate growth of the monetary aggregates coupled with the continuation of Federal funds trading around 5-3/8 per cent contributed to generally unchanged to somewhat higher market interest rates since the June FOMC meeting. Over the second quarter as a whole, short-term market rates advanced 20 to 60 basis points, while most intermediate- and long-term yields declined 10 to 30 basis points.

SELECTED FINANCIAL MARKET QUOTATIONS
(Per cent)

	1976 1/		1977 2/				Change from:	
	May-June High	December Low	May FOMC 17	June FOMC 21	July 5	July 12	May FOMC	June FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	5.36	5.36	5.35	5.34 3/	-.02	-.02
Treasury bills								
3-month	5.53	4.27	5.00	5.03	5.12	5.16	+.16	+.13
6-month	5.93	4.50	5.25	5.23	5.29	5.36	+.11	+.13
1-year	6.32	4.62	5.46	5.42	5.46	5.49	+.03	+.07
Commercial paper								
1-month	5.65	4.48	5.25	5.30	5.25	5.25	0	-.05
3-month	5.90	4.63	5.38	5.40	5.38	5.38	0	-.02
Large negotiable CD's 4/								
3-month	5.95	4.60	5.35	5.40	5.38	5.40	+.05	0
6-month	7.00	4.71	5.75	5.60	5.65	5.65	-.10	+.05
Bank prime rate	7.25	6.25	6.50	6.75	6.75	6.75	+.25	0
Intermediate- and Long-term rates								
Corporate								
New AAA 5/	8.95	7.93	8.32	8.01	--	8.14p	-.18	+.13
Recently offered 6/	8.84 7/	7.84	8.32	8.06	8.03	8.10p	-.22	+.04
Municipal								
(Bond Buyer) 8/	7.03 9/	5.83	5.82	5.55	5.56	5.63	-.19	+.08
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.51	6.35	6.37	6.46	-.05	+.11
7-year	7.89	6.32	7.24	7.01	7.06	7.09	-.15	+.08
20-year	8.17	7.26	7.72	7.65	7.58	7.60	-.12	-.05

Stock prices	January Low	December High 10/	FOMC May 17	FOMC Jun 21	July 5	July 12	May FOMC	June FOMC
Dow-Jones Industrial	881.51	994.18	936.48	928.60	913.59	903.41	-33.07	-25.19
N.Y.S.E. Composite	49.06	56.96	54.49	55.09	54.92	54.60	+.11	-.49
AMEX	86.42	107.26	114.31	117.86	119.93	121.78	+7.47	+3.92
Keefe Bank Stock 6/	520	664	614	618	620	625	+.11	+.07

1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending July 13.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for the year was 1003.87 in statement week ending 9/29.

Monetary Aggregates and Bank Credit

After increasing at a seasonally adjusted annual rate of less than 1 per cent in May, M_1 grew at a 5 per cent rate in June. However, reflecting the sharp April growth, M_1 expanded at an 8-1/2 per cent annual rate in the second quarter, twice the pace during the first quarter.[1/] The rate of growth of M_2 also picked up in June, to an 8 per cent annual rate. The 9-1/4 per cent rate of expansion for M_2 in the second quarter was near the top of the Committee's longer-run range and just below the 10 per cent rate recorded in the previous quarter.

The time deposit component of M_2 expanded sharply in June (line 6 of table), as large denomination deposits other than negotiable CD's at weekly reporting banks (line 12) grew at a rapid pace.[2/] Small denomination time deposits (line 11), on the other hand--whose ceiling rates remain substantially above yields on open market instruments of comparable maturity--weakened slightly in June. Some banks reportedly have raised their offering rates on longer-term issues to

1/ Partial data for the first week of July indicate that M_1 was buoyed somewhat by an earlier-than-normal distribution of social security checks, leading to unusually large amounts of funds held in demand deposit accounts over the long holiday weekend.

2/ Large negotiable CD's at weekly reporting banks (not included in M_2) also expanded sharply. The increase was concentrated at a few banks. Of the $2.25 billion increase, not seasonally adjusted, recorded during the five weeks ending June 29, about $1 billion was accounted for by a large West Coast bank which indicated that the increase was principally for end-of-quarter reporting purposes.

MONETARY AGGREGATES
(Seasonally adjusted) 1/

	1976	1977				
	QIV	QI	QII	May	June	HI
	Net changes at annual rates, per cent					
Major monetary aggregates						
1. M_1 (Currency plus demand deposits)	6.5	4.2	8.5	0.7	4.9	6.1
2. M_2 (M_1 plus time and savings deposits at commercial banks other than large CDs)	12.5	9.9	9.2	4.7	8.0	8.8
3. M_3 (M_2 plus all deposits at thrift institutions)	14.4	11.3	9.9	7.3	9.3	10.0
4. Adjusted bank credit proxy	8.2	5.4	5.1	-1.5	15.4	5.0
Bank time and savings deposits						
5. Total	12.2	12.5	8.3	8.3	13.0	9.6
6. Other than large negotiable CDs	17.1	14.0	9.7	7.6	10.2	10.7
7. Savings deposits	24.7	21.9	7.9	4.5	-2.3	9.8
8. Individuals 2/	18.8	16.0	8.3	6.1	0.6	9.2
9. Other 3/	136.5	103.0	2.9	-10.9	-37.1	17.6
10. Time deposits 4/	10.6	7.1	11.4	10.3	21.5	11.4
11. Small time 5/	27.5	7.9	14.2	12.1	9.7	12.3
12. Large time 4/	-21.2	6.2	5.4	7.7	48.2	9.8
Deposits at nonbank thrift institutions 6/						
13. Total	17.3	13.4	11.0	11.1	11.3	12.4
14. Savings and loan associations	18.8	14.7	12.3	12.5	12.4	13.1
15. Mutual savings banks	12.8	9.2	6.6	6.9	7.6	7.5
16. Credit unions	18.8	16.2	14.1	11.0	14.1	14.7
	Average monthly changes, $ billions					
Memoranda:						
17. Total US Govt. deposits	-0.3	0.0	-0.4	-0.2	-0.5	-0.2
18. Negotiable CDs	0.1	-0.4	0.6	0.7	1.7	0.1
19. Nondeposit sources of funds	0.3	-0.5	0.2	0.1	0.6	-0.1

1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Not seasonally adjusted.
4/ Excluding negotiable CDs at weekly reporting banks.
5/ Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
6/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.

the ceilings in anticipation of competition for maturing "wild card" deposits.[1/]

In contrast to the rapid growth in time deposits, savings accounts declined a little in June. Growth in business and government savings deposits had been slowing since year-end 1976 and was negative in both May and June. Moreover, the estimated seasonally adjusted annual rate of increase for savings accounts of individuals and non-profit organizations at all banks was less than 1 per cent in June, as some large banks reported net withdrawals from these accounts. The withdrawals by individuals have been mainly from accounts with $100,000 or more, according to informal reports received by the staff, while smaller accounts have continued to grow.

These large depositors--businesses, governments and individuals--evidently are more interest-sensitive than depositors with smaller accounts whose access to market instruments is limited. Although no separate data exist for large individual savings deposits, available data do show that the savings deposits of businesses and governments have contributed importantly to the volatility of savings deposits over the last 2-1/2 years. Total savings deposits of individuals also have shown considerable interest-sensitivity over

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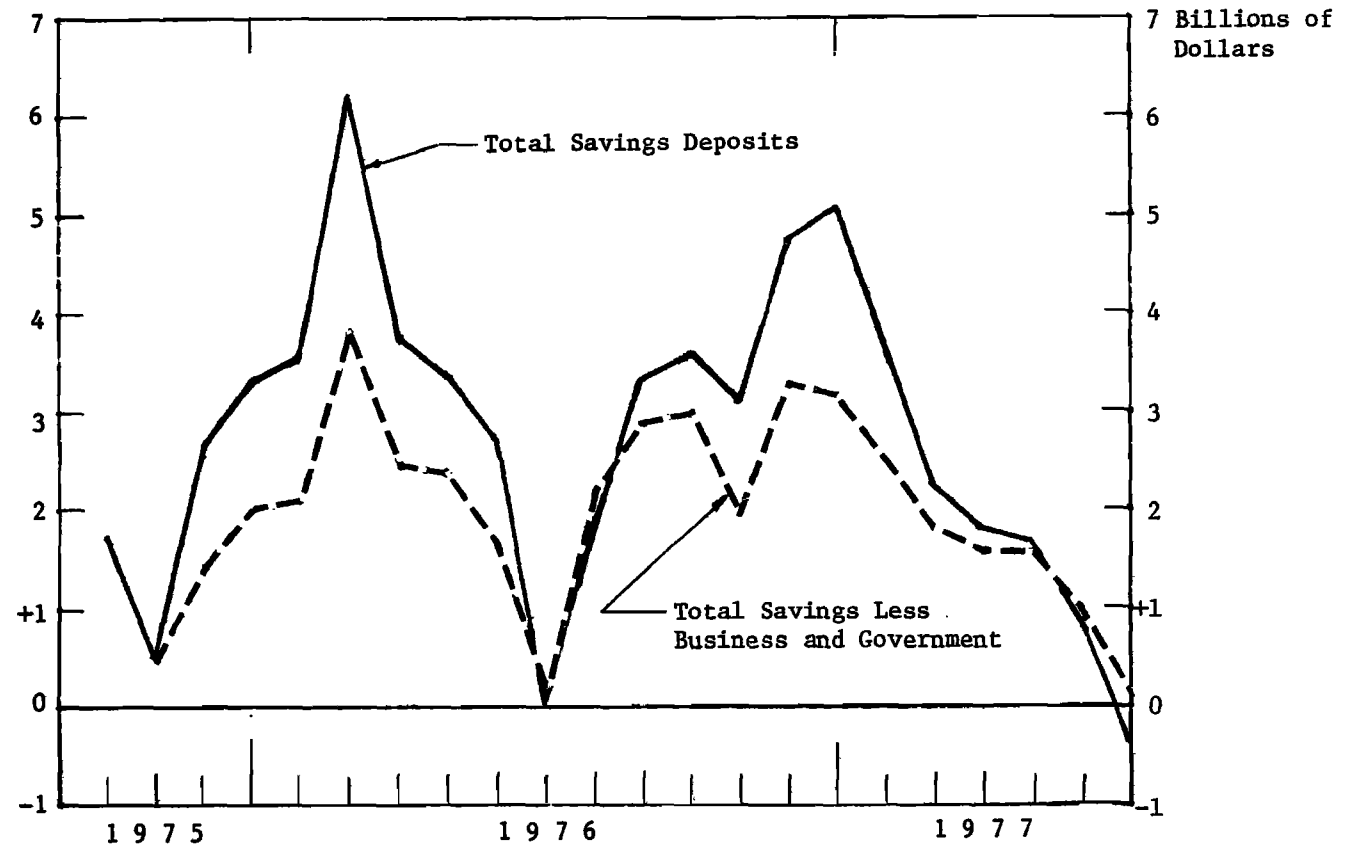
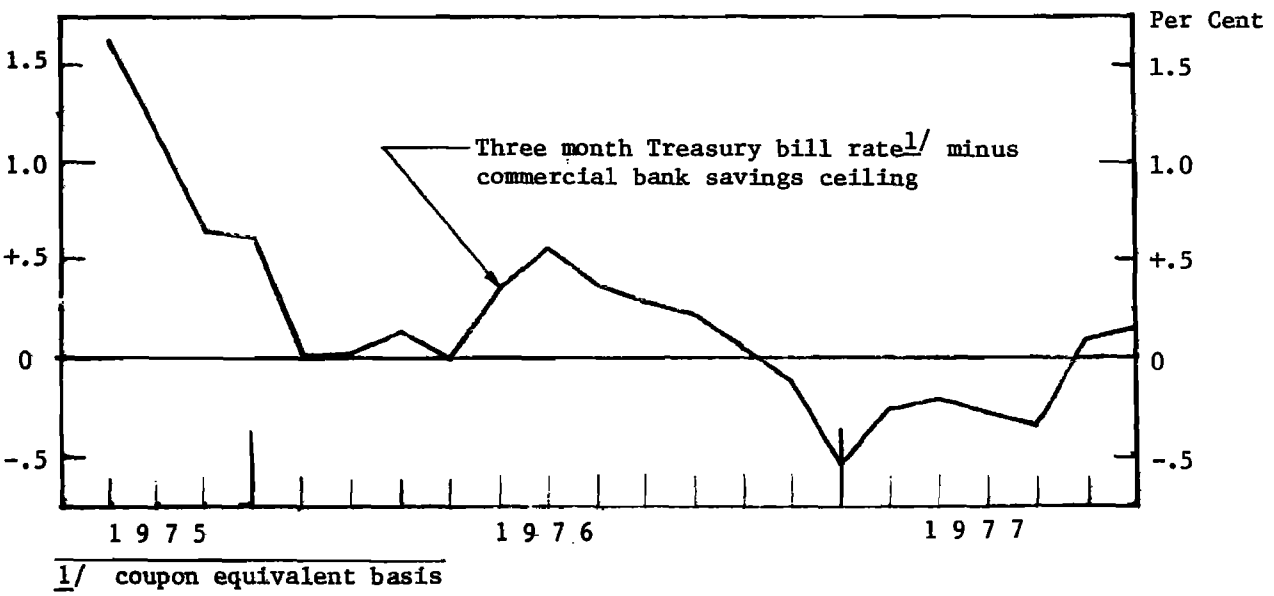
1/ Between July and October 1973 banks and thrift institutions issued about $27 billion of 4-year minimum maturity, $1,000 minimum denomination accounts without regulatory rate ceilings. Of this amount, about $9 billion was issued by commercial banks, $12 billion by S&L's, and $6 billion by MSB's. In addition, it is estimated that no more than one-third of "wild card" certificates at depository institutions are yielding more than current regulatory ceilings.

CHANGES IN SAVINGS DEPOSITS AT COMMERCIAL BANKS
(Seasonally adjusted)



RATE DIFFERENTIAL



1/ coupon equivalent basis

this period, with deposits increasing rapidly when the rate differential is favorable and showing little or no growth when market rates rise above the ceiling. Although this pattern has appeared regularly in recent years, it is difficult to attribute the most recent experience wholly to the rate differential between Treasury bills and savings deposit ceilings. Treasury bill yields recently have been only marginally above the ceiling rate, yet the abatement of savings deposit flows is similar to that of June 1976 when the yield differential was much larger.

Deposits continued to flow into thrift institutions during June at about the same moderate pace that characterized most of the first half of 1977 (line 13). M_3 grew somewhat faster in June than in May largely because of the strength in M_2. In preparation for the maturing "wild card" certificates, thrift institutions have begun actively promoting longer-term deposit accounts in recent weeks. In addition FHLB Board regulations permit S&L's to roll over existing certificates at their original interest rates, even if these rates are above current ceilings. Staff contacts with industry analysts indicate, however, that S&L's generally will not be willing to roll over certificates at rates higher than current regulatory ceilings, and the FHLB Board recently issued a letter suggesting that S&L's should be cautious about rolling over the certificates at rates above current ceilings.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)[1/]

	1976	1977				
	QIV	QI	QII	May	June	HI
Total loans and investments[2/]	11.2	9.5	11.2	10.3	8.9	10.5
Investments	5.6	10.6	10.3	12.2	5.6	10.6
Treasury securities	10.1	25.9	6.6	21.0	8.0	16.4
Other securities	2.7	0.5	12.9	6.3	3.9	6.7
Total loans[2/]	13.7	9.1	11.5	9.4	10.4	10.4
Business loans[2/]	12.0	8.1	11.9	6.4	15.3	10.1
Real estate loans	9.9	12.6	15.1	13.1	17.6	14.1
Consumer loans	11.0	9.5	n.a.	10.7	n.a.	n.a.
Memoranda:						
1. Commercial paper issued by nonfinancial firms[3/]	28.9	15.0	59.3	20.8	48.3	38.5
2. Business loans less bankers acceptances held by banks	8.2	13.0	12.5	8.2	16.2	12.9
3. Business loans less bankers acceptances held by banks plus nonfinancial commercial paper	9.6	13.1	15.8	9.2	18.6	14.7
4. Total business loans plus nonfinancial commercial paper	13.1	8.6	15.1	7.4	17.7	12.0

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Loans include 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/ Measured from end-of-month to end-of-month.

n.a.--not available

Growth in total loans and investments of banks slowed to a 9 per cent annual rate in June compared with 10 to 14 per cent rates during the previous several months. The slowdown reflected a reduced pace of security acquisitions, however, since total loans expanded moderately faster in June than during May. Most major lending categories exhibited strong growth; real estate loans expanded at a near-record pace, and growth of business loans rebounded strongly from the reduced May rate. Banks reduced their lending to security dealers and nonbank financial institutions, however. Nonbank financial institutions appear to have shifted much of their recent borrowing to other markets, as nonbank financial commercial paper increased a record $2.4 billion in June.[1/]

Business Credit

A substantial part of the increase in business loans apparently reflected corporate borrowing to cover income tax payments due June 15 which, at $14 billion, were about $4 billion above the previous record for June set last year. The strength in business loans at large banks was broadly distributed across industries. Also, nonfinancial commercial paper outstanding increased by $600 million (seasonally adjusted) in June, so that total short-term business credit (line 4 of table) grew at a substantial 18 per cent rate last month.[2/]

1/ Finance companies also maintained their heavy pace of longer-term borrowing in the bond market to support their enlarged lending activities and balance sheet restructuring.

2/ Finance company loans to businesses rose by almost $1 billion in May (the latest data available), above the $750 million monthly average in the first four months of the year.

FINANCING PATTERN OF NONFINANCIAL CORPORATIONS
(Billions of dollars, seasonally adjusted annual rates)

	1976				1977	
	QI	QII	QIII	QIV	QI	QII
Capital expenditures	129.5	139.1	145.0	136.9	149.0	162.0
Gross internal funds	120.6	121.3	126.0	119.5	122.6	129.4
Financing gap	8.9	17.8	19.0	17.4	26.4	32.6
Net funds raised in markets	46.8	51.9	50.7	77.2	80.5	85.8
Short-term debt	5.7	12.3	1.7	21.7	33.4	35.1
Long-term debt	28.5	25.5	41.7	47.3	44.9	42.6
Net equity issues	12.6	14.0	7.3	8.2	2.2	8.0
Financial uses of funds, net	37.9	34.1	31.6	59.8	54.1	53.1
Liquid assets	15.7	17.0	17.4	36.1	30.6	10.3
Other 1/	22.2	17.1	14.2	23.7	23.5	42.8
Memo: Funds raised as a per cent of capital expenditures	36.1	37.3	35.0	56.4	54.0	52.9

1/ Includes consumer credit, net trade credit and miscellaneous assets less profit taxes payable and miscellaneous liabilities. The large '77-Q2 figure reflects the sizable decrease in profit taxes payable.
Source: Flow of Funds, July 12, 1977. Data for 1977-QII are preliminary.

The pick-up in short-term business credit growth during June extends a pattern that emerged in the final quarter of last year. With capital expenditures rising more rapidly than internal sources of funds this year, nonfinancial corporations as a group have relied heavily on external sources of funds. In addition, they have allowed their short-term indebtedness to grow relatively faster than their long-term liabilities, and their holdings of liquid assets to remain high by recent historical standards.

Gross public offerings of corporate bonds increased to $2.2 billion in June due to a relatively large volume of new issues by public utilities and financial concerns. Besides the large amount of public bond offerings by finance companies, two bank holding companies and two California-based S&L's added to issues by the financial sector.[1/] With the increased reliance on short-term debt, public bond offerings by industrial firms remained quite low in June, and for the second quarter of 1977 were at their lowest level in more than three years.

Public offerings of foreign bonds amounted to $850 million in June, even though there were no major issues by international lending agencies.[2/] Foreign governments and government-sponsored companies

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1/ The S&L offerings were the first issues of mortgage-backed bonds in which pools of conventional rather than FHA-insured or VA-guaranteed mortgages were pledged. In addition, a large West Coast bank is scheduled to offer $150 million of mortgage-backed pass-through certificates in July. They will represent ownership interests in a pool of conventional mortgages.

2/ The International Bank for Reconstruction and Development (World Bank) has scheduled a three-part, $750 million offering in mid-July.

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

	1976	1977				
	Year	QI	QII	June e/	July f/	Aug. f/
		Gross offerings				
Corporate securities--Total	4,445	4,064	3,700	4,300	4,300	3,200
Publicly offered bonds	2,204	2,168	1,767	2,200	2,500	1,500
By quality 1/						
Aaa and Aa	1,050	1,230	1,064	1,540	--	--
Less than Aa 2/	1,154	938	703	660	--	--
By type of borrower						
Utility	675	734	772	1,060	--	--
Industrial	874	709	382	245	--	--
Other	655	725	613	895	--	--
Privately placed bonds	1,317	1,024	1,133	1,200	1,000	900
Stocks	924	872	800	900	800	800
Foreign securities--Total	857	464	773	1,050	--	--
Publicly offered 3/	520	286	600	850	900	300
Privately placed	337	178	173	200	--	--
State and local gov't. securities--Total	4,756	5,152	7,142	7,300	4,900	4,800
Long-term	2,932	3,565	4,475	5,700	3,600	3,200
Short-term	1,824	1,587	2,667	1,600	1,300	1,600
		Net offerings				
U.S. Treasury	4,850	4,703	-1,767	-300	-300	7,000
Sponsored Federal agencies	361	734	460	810	162	212

1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Classified by original offering date.
e/ Estimated.
f/ Forecast.

FOREIGN BOND ISSUES SOLD IN THE U.S.
(Billions of dollars)

Period	Total	Type of issuer			Type of offering	
		Canadian	Int'l. & regional lending orgs.	Other	Publicly offered [1]	Privately placed
1972	1.6	0.9	0.3	0.4	0.9	0.7
1973	1.4	0.8	—	0.6	0.7	0.7
1974	2.4	1.7	--	0.6	1.8	0.6
1975	7.3	3.3	1.7	2.3	5.5	1.8
1976	10.2	5.2	2.1	2.9	6.2	4.0
1977-H1 [2]	7.4	3.4	1.6	2.4	5.3	2.2
1976-Q1	3.2	2.0	0.3	0.9	1.3	1.9
Q2	2.3	0.9	0.8	0.6	1.8	0.5
Q3	2.2	1.1	0.5	0.6	1.3	0.9
Q4	2.5	1.2	0.5	0.8	1.8	0.7
1977-Q1	1.4	0.8	--	0.6	0.9	0.5
Q2	2.3	0.9	0.8	0.6	1.8	0.5

1/ Classified by original offering date.
2/ Annual rate. Data for June, 1977, are preliminary.

accounted for the heavy June slate, which boosted total private and public foreign bond offerings to $2.3 billion in the second quarter. Year-to-date offerings are nonetheless below last year's pace, owing to the absence of the large private placements by Canadian provinces that characterized early 1976.

Corporate bond yields are, on balance, about unchanged since the June FOMC meeting and currently are about in the middle of 1977's high-low range. Secondary market yields responded to underwriters' aggressive pricing of several new issues in late June by moving downward, but have since retraced all of this decline.

Gross offerings of new common and preferred stock totaled approximately $900 million in June, slightly lower than May's total of $1.05 billion. Utilities continued to account for the majority of new issues, as they have since mid-1976. Value-weighted price indexes of N.Y.S.E.-listed stocks--such as the N.Y.S.E. Composite--have moved generally lower since the last FOMC meeting, although unweighted price indexes have moved higher. In addition, issues listed on the American Stock Exchange and those included in the NASDAQ Composite index recently recorded the highest levels since early 1973.

Municipal and Treasury Securities Markets

State and local governments offered a record $5.7 billion of long-term debt in June, boosting the second quarter volume to an unprecedented $13.4 billion following $10.7 billion in the first quarter.

Despite June's volume, tax-exempt yields are little changed since the last FOMC meeting. Property/casualty insurance companies, commercial banks, and individuals all appear to have been large net purchasers of municipal securities in recent months. Individuals are estimated to have purchased about one-third of all new tax-exempt securities in the first half of 1977, reflecting in part the growth of municipal bond investment companies.

Total Treasury marketable debt outstanding has increased only $200 million since the June FOMC meeting, as the sale of $1.5 billion of 15-year bonds, all for new money, has been largely offset by continued redemption of Treasury bills. Over the second quarter, the Treasury paid down about $9.1 billion of bills while increasing the outstanding quantity of marketable notes and bonds by $4.1 billion. This $5.0 billion net repayment of marketable debt contrasts with net borrowing of $14.1 billion in the first three months of 1977.[1/] Net sales of nonmarketable securities continued at a high rate in the second quarter, as special issues sold to municipal governments conducting refunding operations amounted to $2.0 billion, only a little below the record first quarter pace.

While the level of Treasury debt was declining in the second quarter, the obligations of sponsored agencies rose about $2.5 billion, $1.8 billion more than the increase in the first quarter and the largest

1/ Figures based on auction dates rather than issue dates.

GROSS SALES OF MUNICIPAL BOND INVESTMENT COMPANIES
(Millions of dollars)

Period	Unit investment trusts	Open-end mutual funds	Total
1961-1969	50.3[1/]	--	50.3[1/]
1970	226.6	--	226.6
1971	614.6	--	614.6
1972	897.3	--	897.3
1973	725.8	--	725.8
1974	986.9	--	986.9
1975	2,177.3	--	2,177.3
1976	2,519.0	490.0	3,009.0
1977-H1 [2/]	2,268.0	1,910.0	4,178.0
1976-Q1	632.0	--	632.0
Q2	721.0	29.0	750.0
Q3	762.0	87.0	849.0
Q4	404.0	374.0	778.0
1977-Q1	580.0	535.0	1,115.0
Q2p	554.0	420.0	974.0

1/ Annual average.
2/ Annual rate.
Source: John Nuveen and Co.

gain since the final quarter of 1974. The pick-up in total net borrowing was attributable entirely to the agencies involved in the mortgage market. FHLB and FNMA indebtedness increased in the second quarter; both paid down debt in the previous quarter.

Mortgage and Consumer Loans

Net mortgage lending is estimated to have accelerated during the second quarter, following a more modest gain in the first quarter associated with the severe weather early in the year. S&L's accounted for almost one-half of the second quarter's record expansion, while commercial banks supplied almost 20 per cent. Net mortgage acquisitions by S&L's reached a new high in May (latest data available), although outstanding commitments were unchanged at a record level. The pause in growth in S&L mortgage commitments outstanding, after rising almost steadily for more than two years, apparently reflected the large volume of takedowns, as new commitment activity is estimated to have remained quite strong.

Life insurance companies stepped up their mortgage lending in the second quarter; their recent acquisitions have been concentrated in loans secured by nonresidential and, to a lesser extent, multi-family properties. Net mortgage acquisitions by FNMA also picked up substantially as its purchase prices became relatively attractive to some mortgage originators possessing FNMA purchase commitments. As a result, issues of GNMA-guaranteed mortgage-backed securities declined from the first quarter pace.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	1976			1977	
	Q2	Q3	Q4	Q1	Q2[e/]
By type of debt:					
Total	75	91	102	108	126
Residential	59	71	79	85	100
1- to 4-family	58	70	77	81	93
Multifamily	1	1	2	4	7
Other[1/]	16	20	23	23	26
By type of institution:					
Savings and loans	43	47	52	48	57
Commercial banks	13	15	14	17	23
Mutual savings banks	4	4	5	4	4
Life insurance companies	*[2/]	2	3	2	5
GNMA pools	10	11	17	19	10
FNMA and GNMA	- 6	- 1	- 5	*[2/]	8
Other[3/]	11	13	16	18	19

[1/] Includes commercial and other nonresidential as well as farm properties.

[2/] Less than $500 million.

[3/] Includes mortgage pools backing issues of securities guaranteed by the Federal Home Loan Mortgage Corporation and the Farmers Home Administration.

[e/] Estimated.

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 month or week earlier	Spread[1/] (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	+93	11
Low	8.70	--	-17	0
1977--Jan.	8.73	-5	+51	6
Feb.	8.65	-8	+37	6
Mar.	8.70	+5	+48	2
Apr.	8.75	0	+44	11
May	8.85	+10	--	12
June 3	8.85	0	+70	11
10	8.85	0	+74	10
17	8.85	0	+84	11
24	8.88	+3	+81	8
July 1	8.95	+7	--	10
8	8.93	-2	+79	11

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.

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		
1977--High	416	278	9.13	723	422	8.79	8.08
Low	143	106	8.81	91	50	8.46	7.56
June 6							7.99
13	211	158	9.13	188	78	8.77	7.99
20							7.92
27	161	106	9.11	91	50	8.73	7.90
July 5							7.93
11	164	102	9.08	131	77	8.72	7.97

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, 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 related stock requirements. Mortgage amounts offered by bidders relate to total eligible 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.

Reflecting strong credit demands, average interest rates on new commitments for home mortgages at S&L's have increased somewhat further since the last FOMC meeting, and currently are about 30 basis points above the recent low in early March. Yields in the secondary mortgage market, which have moved irregularly since early March, have changed little on balance since the June meeting.

Consumer instalment credit outstanding expanded in May at a seasonally adjusted annual rate of almost 17 per cent. The growth rate for the second quarter was also 17 per cent, compared with 15 per cent for the first quarter.

The estimated net flow of home mortgage and consumer instalment credit was a relatively high 7.6 per cent of disposable income in the second quarter. The total amount of such debt outstanding approached 63 per cent of disposable income--near the upper end of the range prevailing since 1970. While relatively high, these ratios are not out of line with experience during previous cyclical expansions. Moreover, when debt burden is measured by the ratio of debt repayments to disposable income, households currently appear to be less burdened than in several previous periods. This ratio in the second quarter was midway between the low and high points of the last 10 years. Thus, debt burdens do not currently appear to present an unusual threat to continued strength in consumer expenditures.

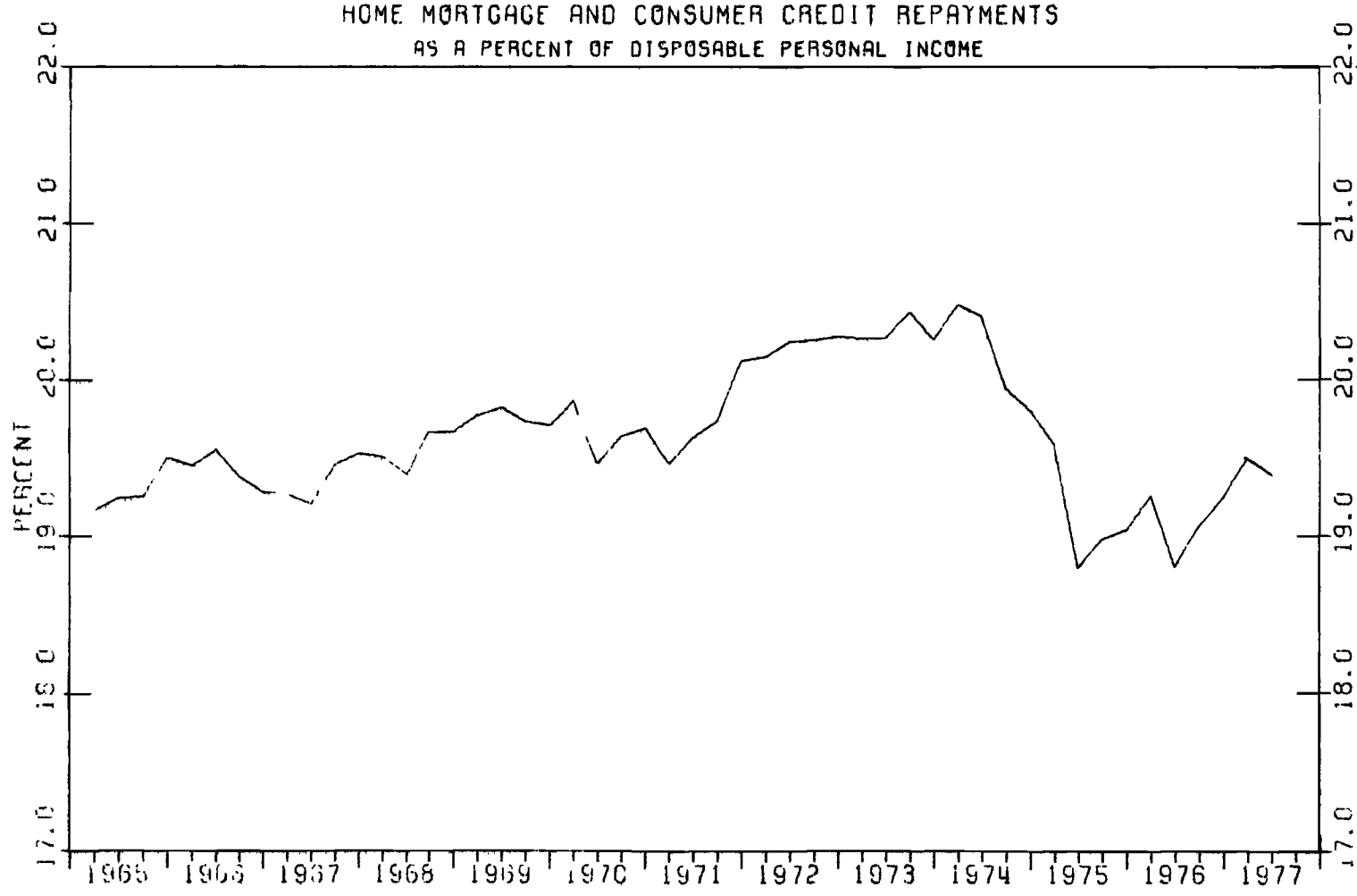
CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976[1/] QIV	1976[1/] QI	1977[1/] Apr.	1977[1/] May
Total							
Change in outstandings							
Billions of dollars	9.0	6.8	16.7	18.5	26.6	31.9	30.3
Per cent	6.1	4.4	10.3	10.7	14.9	17.8	16.6
Bank share (per cent)	44.4	41.7	39.7	42.4	42.9	48.7	41.6
Extensions							
Billions of dollars	160.0	163.5	186.6	194.1	209.2	216.9	214.8
Bank share (per cent)	45.5	47.2	47.5	48.0	46.5	48.0	47.6
Liquidations							
Billions of dollars	151.1	156.6	169.8	175.6	182.6	185.0	184.5
Ratio to disposable income	15.4	14.5	14.4	14.4	14.7	14.7	14.5
Automobile Credit							
Change in outstandings							
Billions of dollars	0.3	2.6	7.5	8.1	11.4	14.1	13.1
Per cent	0.7	5.2	14.2	13.6	18.8	22.8	20.7
Extensions							
Billions of dollars	43.2	48.1	55.8	57.9	63.2	65.7	65.3
New car loans over 36 months as per cent of total new car loans							
Commercial banks[2/]	8.8	14.0	25.4	30.7	36.3	n.a.	38.9
Finance companies	8.6	23.5	33.9	37.4	41.5	44.9	44.9
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	11.03	10.82	10.81
Finance companies	12.61	13.11	13.17	13.21	13.15	13.14	13.15

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

2/ 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.

n.a.--not available.



Source: Flow of Funds; 1977-Q2 preliminary.

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

July 13, 1977

IV - T - 1

		1976			1977		
		YEAR	Q3	Q4	Q1	April	May
1.	Merchandise exports	114,700	29,603	29,720	29,476	9,974	10,317
2.	Merchandise imports	123,917	32,387	33,292	36,456	12,841	12,093
3.	Trade Balance	-9,217	-2,784	-3,572	-6,980	-2,867	-1,776
4.	Bank-reported private capital flows	-9,922	-1,598	-4,140	-1,882	2,365	1,040
5.	Claims on foreigners (increase -)	-20,904	-3,372	-9,148	3,398	-958	-1,960
6.	Long-term	-2,124	-978	-480	-541	-280	193
7.	Short-term	-18,780	-2,394	-8,668	3,939	-678	-2,153
8.	(of which on commercial banks in offshore centers 2/)	(-12,599)	(-2,286)	(-4,318)	(1,999)	(-350)	(1,722)
9.	Liabilities to foreigners (increase +)	10,982	1,774	5,008	-5,280	3,323	3,000
10.	Long-term	175	75	221	76	20	89
11.	Short-term	10,807	1,699	4,787	-5,356	3,303	2,911
12.	to commercial banks abroad	8,078	1,976	2,795	-4,508	2,488	927
13.	(of which to commercial banks in offshore centers 3/)	(4,146)	(300)	(2,867)	(-3,309)	(2,727)	(185)
14.	to other private foreigners	2,719	917	1,178	366	-83	836
15.	to int'l and regional organizations	10	-1,194	814	-1,214	898	1,148
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	3,026	-89	1,047	-1,165	-213
17.	Other private securities transactions (net)	-7,480	-2,675	-2,150	230	154	-776
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	68	21	879	204	89
19.	(of which stocks)	(853)	(-18)	(-174)	(376)	(124)	(141)
20.	U.S. net purchases (-) of foreign securities	-8,730	-2,743	-2,171	-649	-50	-865
21.	(new foreign issues of bonds and notes)	(-9,954)	(-3,011)	(-2,491)	(-1,272)	(-148)	(-953)
22.	Change in foreign official res. assets in the U.S.	13,016	1,265	6,108	5,042	3,064	1,610
23.	OPEC countries (increase +)	6,750	1,228	555	2,704	1,328	318
24.	(of which U.S. corporate stocks)	(1,828)	(374)	(308)	(160)	(98)	(91)
25.	Other countries (increase +)	6,266	37	5,553	2,338	1,736	1,292
26.	Change in U.S. reserve assets (increase -)	-2,530	-407	228	-389	272	-354
27.	Other transactions and statistical discrepancy (net payments (-))	13,350	3,173	3,615	2,932	-1,823	469
28.	Other current account items	8,359	1,292	3,179	3,031		
29.	Military transactions, net 4/	-34	76	149	33		
30.	Receipt of income on U.S. assets abroad	21,369	5,077	6,382	5,792		
31.	Payment of income on foreign assets in U.S.	-11,561	-2,860	-3,110	-2,790		
32.	Other services, net	2,745	192	817	976		
33.	Remittances and pensions	-1,878	-461	-492	-491		
34.	U.S. Gov't grants 4/	-2,282	-732	-567	-489		
35.	Other capital account items	-4,761	-457	-1,808	-425		
36.	U.S. Gov't capital, net claims 4/ (increase -)	261	-239	-180	72		
37.	U.S. direct investment abroad (increase -)	-4,596	-1,205	-822	-532		
38.	Foreign direct investment in U.S. (increase +)	2,176	561	403	827		
39.	Nonbank-reported capital, net claims (increase -)	-2,602	426	-1,209	-792		
40.	Statistical discrepancy	9,752	2,338	2,244	326		
MEMO:							
41.	Current account balance 4/	-858	-1,492	-393	-3,949	n.a.	n.a.
42.	Official settlements balance	-10,486	-858	-6,336	-4,653	-3,336	-1,256
43.	O/S bal. excluding OPEC	-3,736	370	-5,781	-1,949	-2,008	-938

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 and Bermuda).

4/ Excludes grants to Israel under U.S. military assistance Acts, exports financed by those grants, and offsetting capital transactions.

*/ Less than $50,000.

Foreign exchange markets. In the four weeks since the last green book downward pressure on the dollar has increased significantly. The trade-weighted value of the dollar declined about 1-1/4 per cent,

The development of larger than expected trade and current account deficits for the U.S. since late last year has tended to put downward pressure on the dollar.

Downward pressure on the dollar intensified sharply two weeks ago, however, when statements by government officials fostered market expectations that the currencies of countries with large current account surpluses would appreciate and those with deficits would depreciate. The Japanese yen, German mark, and Swiss franc soon appreciated about 3 per cent against the dollar, while other major currencies rose by smaller amounts.

The yen's total appreciation against the dollar since last December now amounts to about 13 per cent, and the Japanese unit is at its highest dollar price in 4 years.

. There are no signs that upward pressure on the lira is slackening, despite another 3/4 percentage point decline in short-term Italian interest rates during the period. Indeed, the foreign currency liabilities of Italian banks continue to increase.

On Monday the Spanish peseta was devalued 20 per cent against the dollar as one part of an economic stabilization program. The devaluation had been widely expected.

The Swedish krona remains under pressure at the bottom of the European joint float, and the mark has recently risen to the top.

The System purchased and repaid $45 million equivalent of Swiss francs during the past month, reducing its Swiss franc swap debt to $737

million. In the past few days the System also sold small amounts of marks to counter disorderly market conditions.

Gold has risen about $4.00 per ounce over the last month, and is now selling at about $143 per ounce.

U.S. International Transactions through May. U.S. merchandise trade was in deficit at a $28 billion seasonally-adjusted annual rate (S.A.A.R.) in April-May, about the same as the first quarter rate. The May decline in the deficit from April comprised primarily an increase in agricultural exports and a decline in oil imports. Private capital transactions (for which we have data) continued to show a net inflow in April-May, in contrast to the outflows in 1976 and the first quarter of 1977, while foreign official reserve assets in the United States continued to rise in January-May at an annual rate about $10 billion greater than that of 1976.

Exports in April-May were $121.7 billion, compared with $117.9 billion in the first quarter; virtually all of this increase was in agricultural exports. Agricultural exports in April-May were $27 billion, up $3 billion from 1977-Q1. About two-thirds of the increase in agricultural exports was in volume; this reflected an increase in foreign demand for soybeans, which was in turn attributable to the relatively low European feed-grains harvest in 1976/77 and a smaller-than-expected Brazilian soybean harvest. Current futures-market prices have declined substantially from the high levels at which May exports were sold, however, in the face of general expectations of above-average harvests for 1977/78 in the United States, Europe, and the U.S.S.R.

U.S. Merchandise Trade, International Account Basis
(billions of dollars, seasonally adjusted annual rates)

	1976	1976[r]				1977			
	Year	1Q	2Q	3Q	4Q	1Q[r]	April & May	April	May
EXPORTS	114.7	108.0	113.5	118.4	118.9	117.9	121.7	119.7	123.8
Agric.	23.4	21.6	23.4	25.0	23.6	24.5	27.4	25.3	29.5
Nonagric.	91.3	86.4	90.1	93.5	95.3	93.4	94.3	94.4	94.3
IMPORTS	123.9	113.3	119.7	129.5	133.2	145.8	149.6	154.1	145.1
Petroleum	34.6	30.3	33.0	37.6	37.4	44.3	46.6	50.8	42.3
Nonpetroleum	89.3	83.0	86.6	91.9	95.8	101.5	103.0	103.3	102.8
BALANCE	-9.2	-5.3	-6.1	-11.1	-14.3	-27.9	-27.9	-34.4	-21.3

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

Non-agricultural exports in April-May were about unchanged from 1977-Q1; they have been within the $93-$95 billion range since 1976-Q3, following an 8 per cent increase during the first three quarters of 1976. The slow expansion of non-agricultural exports follows primarily from the slow rate of growth of income and the presence of substantial excess capacity among major U.S. trading partners. Income growth in major foreign countries averaged less than two per cent at an annual rate during the second half of 1976. Foreign capacity utilization, a useful indicator of delivery constraints and other nonprice competition, also remains low. One measure of foreign capacity utilization stood at 87 in the second half of 1976 compared with 96.1 in the first half of 1973; still-depressed rates of industrial production, high unemployment rates, and the exit of foreign workers also indicate the presence of excess capacity.

Imports in April-May were $149.6 billion, compared with $145.8 billion in 1977-Q1. Petroleum imports fell in May by about 18 per cent in volume and about 1.5 per cent in price, bringing the April-May volume to 9.52 million barrels per day, about $46.5 billion per year, compared with a 1977-Q1 rate of $44.3 billion. Much of the April-May rate of imports still reflects the transitory effects of stock accumulation in anticipation of an OPEC price increase. OPEC has apparently now agreed upon a 10 per cent unified price increase from its December level effective July 1, raising the price of marker crude to $12.70.

Non-petroleum imports were $103 billion in April-May, up about 1.5 per cent from the first quarter; with a 2.5 per cent increase in price offset by a decline in volume. The value of imports of nonpetroleum industrial supplies increased about 10 per cent in April-May from the 1977-Q1 rate of $30.5 billion; about 90 per cent of this increase was in volume. Imports of automotive vehicles and parts from Canada in April-May increased about 2.8 per cent in volume on a 3.6 per cent decline in unit value, reflecting the strength in U.S. demand for U.S.-brand cars from Canada. Other foreign car imports rose about 7 per cent in April-May on about unchanged unit values. Domestic sales of foreign cars (other than Canadian) have reached record levels for four consecutive months while imports have risen only slightly, representing in part, a desire to draw down inventories prior to introducing new car models. While import unit values, have risen, 12 per cent from a year ago, sales

prices of foreign cars have risen only 1.3 per cent; sales prices of American cars have risen by 7 per cent over the same period.

Imports of nondurable consumer goods were down about 4 per cent in volume in the face of an 11 per cent increase in unit values, while imports of consumer durable goods were about steady, with a 7 per cent unit value increase about offsetting the fall in volume. Foods, feeds and beverages were up about 4 per cent on an 11 per cent rise in unit values largely attributable to price increases in cocoa, coffee, and sugar.

Private capital flows (for which data are available) showed a net inflow of $50 million in May. This brings the total net capital inflow in 1977 through May to an annual rate of $1.9 billion, in contrast to a net outflow of $14.6 billion during 1976. The major constituents of this change in direction were a shift to a net borrower position by U.S. banks, a response to rising U.S. domestic credit demand; and a drop in new foreign security issues in the U.S. market, a result of both rising U.S. credit demand and attempts by the Bank of Canada to raise M_1 growth. Finally, perhaps reflecting different outlooks for the relative rates of recovery of foreign and domestic rates of profit, foreign purchases of U.S. stocks increased while the rate of sale of foreign stocks by U.S. residents also rose.

Bank-reported private capital transactions resulted in net inflows of $1 billion in May, bringing the total to $1.5 billion since December. These inflows have been largely a function of the relatively

rapid rise in U.S. income growth, and hence of credit demand, which has increased the net inflow of funds into U.S. banks and, as well, diverted foreign funds from purchases of Treasury bills.

Other private securities transactions represented an outflow of $800 million in May and about $900 million at an annual rate for January-May. Foreign purchases of U.S. stocks have been running at about a $1.5 billion annual rate for January-May, compared with $850 million for 1976. U.S. residents were net sellers of foreign securities, excluding new issues, at about a $1.9 billion annual rate in January-May, compared with $1.2 billion in 1976.

New issues of foreign securities in the United States were about $1 billion in May, representing an outflow of $6 billion at an annual rate in January-May, compared with $10 billion in 1976. The major factors in this decline in new foreign lending in the first five months of the year have been a drop in Canadian interest rates attributable to the Bank of Canada's raising M_1 growth, and the absence, primarily for political reasons, of Quebec from the capital market. Only one new Canadian issue appeared in May, a $125 million placement by the Province of Saskatchewan, bringing the January-May Canadian total to $900 million, compared to $5.6 billion in 1976. New foreign bond flotations in the third quarter are expected to be somewhat above the $2.2 billion total for the second quarter, including a World Bank issue of $750 million.

Foreign official reserve assets in the United States (excluding those held by OPEC) increased by $1.2 billion in May.

OPEC reserve assets in the United States increased by $300 million in May, compared with a January-April monthly average increase of $1 billion. In continuation of an apparent policy of increasing the diversification of its investment portfolio, one OPEC country purchased, through a private placement, a $75 million 20-month note of a U.S. corporation. The 6-1/4 per cent coupon on the note was about 20 basis points above the return on a comparable maturity Treasury issue.

A $400 million increase in U.S. reserve assets in May largely reflected the drawings on IMF stand-by arrangements by the United Kingdom and Italy.

Monetary and financial developments in major foreign countries. Monetary policy abroad has not been altered significantly since monetary and financial developments were discussed in the green book in April. In the face of only moderate expansion in economic activity in foreign industrial countries and the persistence of high inflation rates, monetary policy has generally remained accommodative. Only in Japan has monetary policy been used actively to stimulate aggregate demand.

Short-term interest rates abroad have fallen in all countries except Switzerland, since the end of March, continuing the decline that began late last year. (See Table.) The decline in 3-month interest rates since the end of 1976 has been especially striking in the United Kingdom (where they declined over 650 basis points from extraordinary levels) and in Belgium and the Netherlands (where the downward pressure on exchange rates -- which caused interest rates to be raised last year -- has been reversed). But interest-rate declines have been pronounced elsewhere, as well, so that -- given the rise in U.S. rates in the second quarter -- foreign rates have declined significantly relative to U.S. rates. This shift in interest differentials helped to sustain the exchange value of the dollar in the second quarter in the face of the large current-account deficit.

The development of long-term yields has been considerably more mixed, with yields rising in some countries and falling in others. The persistence of high inflation rates has kept long-term yields in general quite high. But long-term yields in the United Kingdom fell from a peak of 15.51 per cent last October to 11.60 per cent in early April, although they have since backed up somewhat. There have been

3-MONTH AND LONG-TERM INTEREST RATES IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum)

	1976			1977				
	High	Low	Dec.*	Mar.*	Apr.*	May*	June*	Latest
3-MONTH RATES 1/								
Belgium	15.00 (Sept.)	6.13 (Jan.)	10.73	7.07	7.01	6.94	6.88	7.00 (7/13)
Canada	10.38 (Mar.)	8.00 (Dec.)	8.51	7.63	7.58	7.44	7.16	7.25 (7/12)
France	11.25 (Oct.)	6.00 (Jan.)	10.55	9.87	9.33	9.13	9.01	8.69 (7/13)
Germany	5.00 (Dec.)	3.40 (May)	4.82	4.70	4.57	4.43	4.24	4.30 (7/13)
Italy	20.88 (July)	7.50 (Jan.)	17.13	16.57	16.26	15.49	14.65	14.00 (7/13)
Japan	8.25 (Jan.)	7.25 (May)	8.00	7.20	6.46	5.75	6.05	6.25 (7/12)
Netherlands	16.00 (Aug.)	2.63 (Mar.)	6.51	5.73	4.89	3.03	2.84	3.25 (7/13)
Switzerland	2.63 (Jan.)	0.75 (June)	1.98	2.88	2.61	3.98	3.80	3.13 (7/13)
United Kingdom	16.25 (Oct.)	8.31 (Feb.)	14.27	10.31	8.59	7.63	7.81	7.75 (7/12)
United States	5.75 (June)	4.50 (Dec.)	4.54	4.74	4.72	5.13	5.35	5.25 (7/6)
LONG-TERM GOV'T. BOND YIELDS 2/								
Belgium	9.30 (Nov.)	8.80 (Jan.)	9.22	9.06	8.94	8.93	n.a.	8.93 (5/31)
Canada	9.49 (Jan.)	8.47 (Dec.)	8.47	8.82	8.85	8.77	8.70	8.74 (7/8)
France	10.72 (Dec.)	9.89 (Feb.)	10.72	10.65	10.80	10.96	10.92	10.92 (6/24)
Germany	8.30 (Jan.)	7.21 (Nov.)	7.26	6.68	6.20	6.14	6.11	6.10 (7/1)
Italy	14.54 (Oct.)	11.40 (Jan.)	13.92	14.72	14.89	14.82	14.71	14.90 (7/1)
Japan	8.80 (Nov.)	8.61 (Feb.)	8.73	8.42	7.74	7.43	n.a.	7.43 (5/31)
Netherlands	9.76 (Sept.)	7.00 (Feb.)	7.43	7.55	7.28	7.27	7.15	7.10 (7/1)
Switzerland	5.86 (Jan.)	4.41 (Nov.)	4.42	3.96	3.93	4.44	4.53	4.38 (7/1)
United Kingdom	15.51 (Oct.)	12.84 (Feb.)	13.82	11.63	11.80	12.12	12.24	12.55 (7/7)
United States	8.17 (May)	7.26 (Dec.)	7.17	7.73	7.72	7.68	7.57	7.62 (7/11)

* The 3-month rates shown are the average of daily rates in the month; long-term yields are end-month quotations.

1/ Interbank rates, except: Belgium-time deposit rate; Canada-finance company rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate (most often quoted).

2/ The long-term rates quoted are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

significant declines in long-term yields in Germany and Japan, as well.

The trend of growth of the monetary aggregates (see Table) seems to be in line with announced targets in most countries.

The Bank of Japan lowered its discount rate twice this year -- from 6.50 per cent (where it had been since October 1975) to 6.00 per cent on March 12 and to 5.00 per cent on April 19. Market interest rates and commercial banks' prime long-term lending rates -- which are controlled to a great extent by the authorities -- have subsequently declined significantly. Japanese officials claim that the behavior of small Japanese firms, although not that of the large ones, is quite sensitive to interest rates, so it is hoped that the decline in rates will help to stimulate investment demand.

The Bank of Japan's system of "window guidance" has recently been altered. Previously the Bank of Japan announced quarterly ceilings for the allowable increase in credit by Japanese city banks; beginning with the current quarter, the banks draw up their own plans for credit expansion and submit them to the Bank of Japan for approval. It is not clear that the change is substantive, however, since in both systems the actual ceilings result from discussions between the banks and the Bank of Japan.

Monetary policy in Germany remains geared to the target for the growth of "Central Bank Money" (CBM) -- 8 per cent in 1977 over 1976 -- announced in December. The Bundesbank acted in March and again in June to raise CBM growth by reducing minimum reserve requirements and by raising rediscount quotas, measures which augment the banks' free liquid reserves. The growth of CBM, which was quite slow on average in the first four months of the year, picked up in May.

Growth of the Money Stock in Selected Industrial Countries
(percentage change from preceding period, seasonally adjusted)

	1977						Change in latest 3 months from same period year earlier
	Jan.	Feb.	Mar.	Apr.	May	June	
Canada (M_1)	0.2	2.0	0.3	-1.3	3.1	n.a.	7.3
France (M_2)	2.1	1.1	0.2	1.1	n.a.	n.a.	12.1
Germany (CBM[1/])	0.5	1.0	0.3	-0.4	0.8	n.a.	8.7
Japan (M_2)	0.9	0.8	1.2	0.2	1.0	n.a.	11.9
witzerland (M_1[2/])	-3.8	-0.8	0.4	0.2	n.a.	n.a.	7.0
United Kingdom (£M_3)	-1.8	-1.0	0.2	2.4	0.6	n.a.	7.6
United States (M_1)	0.4	0.1	0.5	1.6	0.0	0.4	6.0
(M_2)	0.8	0.6	0.7	1.1	0.4	0.7	10.6

1/ "Central Bank Money," approximately equal to a weighted sum of the components of M_3.
2/ Not seasonally adjusted.

In the United Kingdom, growth of sterling M3 and domestic credit expansion (DCE) have been well within the targets announced and agreed upon with the IMF in December. In the twelve months ending in mid-April, sterling M3 increased about 7-1/2 per cent, well below the 9-13 per cent range that was widely regarded as the official target; DCE was £4.2 billion, less than half the £9 billion limit agreed upon with the IMF.

The declines in sterling M3, which took place around the turn of the year and enabled the authorities to achieve their targets, were reversed in March-May, with the growth of sterling M3 being especially sharp in April. But the danger of excessive monetary growth does not seem great, given the weakness of activity and the extent to which the public sector borrowing requirement has already been financed. Moreover, controls on the growth of banks' interest-bearing liabilities were extended in May and represent a potential constraint on monetary growth.

British authorities introduced a variable rate bond in late May, with the rate linked to the average Treasury bill tender rate. The issue of £400 million was so well received by the market that another £400 million issue has just been announced despite the present relative weakness in the bond market (which is probably a reflection of uncertainty about Phase III of the incomes policy and, consequently, about future price developments).

In Italy, the repayment of import deposits (scheduled to end this month) has been resulting in a considerable increase in the monetary base and in bank liquidity more generally. Because controls on the extension of credit (in domestic currency) are in effect, the increase

in bank liquidity has induced banks to buy Treasury bills, and bill rates and interbank rates have declined considerably. The Bank of Italy's discount rate and bank lending rates have also declined.

Latest data show no deceleration in either M2 or DCE, but data are not available for the period since conditions for monetary growth were agreed upon with the IMF in March. Italian banks continued to borrow abroad in large volume; the foreign funds are onlent to domestic residents (such credit being exempt from the domestic credit controls) and are added to Italian monetary reserves.

Monetary policy remains unaltered in Canada and France. The Bank of France has been lowering its money-market intervention rates. But credit ceilings -- designed to help control monetary growth -- remain in place and seem to be acting as a constraint on banks' lending behavior. In contrast to Italian banks, which lowered their lending rates despite the need to ration credit in the face of credit ceilings -- French banks have not lowered their lending rates. However, there is speculation that bank lending rates, and the Bank of France's discount rate, may be lowered soon.

The Bank of Canada acted, by lowering its discount rate from 8.00 to 7.50 per cent on May 9, to boost M1 growth to the lower end of the 8-12 per cent target range. There is some evidence that there has been an increase in the velocity of M1 which would help to explain the Bank of Canada's apparent difficulty in achieving desired M1 growth.

Since the end of March, central bank discount rates have been reduced in Japan, Italy, and Canada, as noted above, and in the United Kingdom, Belgium, and the Netherlands. The Austrian discount rate was raised in June.

International economic discussions. The pace of economic activity and progress in the adjustment of current-account imbalances in industrial countries were reviewed in meetings in June at the OECD in Paris. The highlights of those meeting include the following:

-- Real GNP/GDP in OECD countries taken as a group is forecast to increase only 4 per cent in 1977 (year-over-year), a somewhat slower rate of growth than envisaged earlier. At the same time, there is expected to be little or no slowing in the rate of inflation from the 9 per cent rate seen last year.

-- Some representatives feared that the rate of growth of real GNP/GDP in the OECD area in 1978 will continue to be insufficient to absorb much excess capacity unless actions were taken fairly soon to stimulate aggregate demand.

-- Representatives from most countries other than Germany and Japan urged specifically that further stimulative actions be taken in Germany and Japan. Doubts were expressed whether the growth of domestic demand in those two countries will be sufficient, with present policies, to achieve official GNP growth targets (4-1/2 to 5 per cent in 1977 in Germany and 6.7 per cent in the year ending March 1978 in Japan) or, more importantly, to achieve a reduction in their current-account surpluses. The view was expressed, most pointedly by U.S. representatives, that an appreciation of the exchange value of the yen also would be useful in helping to reduce the Japanese surplus.

-- In contrast, most representatives were satisfied with the prospects for the growth of real GNP in the United States and, on balance, with the large projected U.S. current-account deficit.

-- Considerable progress is being made by the United Kingdom, Italy, and France in reducing their current-account deficits, although structural changes in these economies are required for achievement of a sustainable pattern of external and internal balance.

-- More urgently, significant external imbalances are likely to persist in some of the smaller OECD countries. Unless more progress is made soon in correcting these imbalances, financing of the current-account deficits may become increasingly difficult, especially in Portugal, Spain, Turkey, Greece, Finland, and Denmark. Some of these countries already are experiencing major problems in obtaining external financing.

Appendix A*

The President's July Mid-Session Budget Review

Current Budget Estimates: An Overview

On July 1, the Administration released its revised budget outlook for fiscal years 1977 and 1978. As Table 1 shows, the budget deficit in the current fiscal year now is expected to be $48.1 billion, marginally below the April estimate and about $20 billion below the February estimate. The deficit projection for fiscal 1978 has been widened in the new forecast to $61.5 billion from approximately $58 billion in both February and April. While these revised estimates do not contain any major surprises, they do offer the first detailed look since the spring budget update at the assumptions behind the Administration's spending and revenue estimates.

Table 1
Comparison of Administration Budget Estimates
(fiscal years; billions of dollars)

	1977			1978		
	Feb. Est. 1/	Apr. Est. 2/	Current	Feb. Est. 1/	Apr. Est. 2/	Current
Receipts	348.5	358.6	358.3	400.7	403.8	401.4
Outlays	416.6	407.3	406.4	458.5	461.7	462.9
Deficit (-)	-68.0	-48.7	-48.1	-57.7	-57.9	-61.5

1/ Fiscal year 1978 Budget Revisions, February 1977.
2/ OMB Budget Estimates, April 1977.

Economic Assumptions

Economic conditions significantly affect the budget's receipts and expenditure totals. Consequently, the Office of Management and Budget's economic forecasts provide a useful starting point for analyzing the July budget estimates. As can be seen in Table 2, the Administration currently expects that real economic growth in 1977 will be

* Prepared by James S. Fralick, Economist, Government Finance Section, Division of Research and Statistics.

somewhat faster than was expected in April but slightly less growth now is projected for 1978. The unemployment rate is expected to fall to 6.6 per cent by the end of 1977 and to 6.1 per cent by the end of 1978, a slight reduction from earlier forecasts. The rate of increase in consumer prices is expected to be 6.0 per cent, an increase from April's 5.7 per cent forecast. This 0.3 per cent rise reflects the impact of the crude oil equalization tax on the consumer price index.

Outlay Shortfalls

As in fiscal year 1976 and the transition quarter, actual spending in fiscal 1977 appears to be falling well below levels projected in earlier budgets. Several fundamental characteristics of Federal spending account for these shortfalls.

(1) Congress and OMB do not control expenditures directly. Congress determines an Agency's budget or new obligational authority. This allows the Agency to commit or obligate funds and these obligations are in turn liquidated by the disbursement of funds (spending). In many instances, the timing between obligations and outlays is fairly close as in the case of wage and salary disbursements to Federal employees. For other programs such as military construction, however, funds obligated in one year may be spent--in the form of progress payments--over a number of future years. Overall, it is the agencies--not the Congress or the Administration--that exercise a good deal of discretion in determining the spending time path, and even then the precise timing of such spending cannot be predicted accurately.

(2) The budget estimates are in many respects not forecasts but representations of the President's plan for the current or future fiscal years. These plans may be modified by Congressional action (or inaction) or they may be modified by the President himself in the light of incoming economic information. The dropping of the $50 rebate proposal is an example of such a change in plans.

(3) Congress has created a number of entitlement programs--food stamps and unemployment compensation--where payments are made to individuals who meet certain eligibility requirements. Spending for these programs depend on variables that cannot be anticipated with certainty, including numbers of eligible beneficiaries, unemployment rates and prices.

Table 2
Comparison of Administration's Economic Forecasts
(calendar years; billions of dollars)

	Forecast			
	1977		1978	
	April	July	April	July
Gross National Product				
Current dollars:				
amount	1887	1883	2103	2106
per cent	11.0	11.3	12.0	11.9
Constant dollars:				
amount	1327	1330	1400	1399
per cent	4.9	5.1	5.6	5.3
Prices (per cent change)				
GNP deflator (year over year)	5.8	5.9	6.1	6.3
CPI (year over year)	6.2	6.5	5.7	6.0
Unemployment Rate (per cent)				
Total:				
yearly average	7.2	7.0	6.4	6.3
fourth quarter	6.9	6.6	6.1	6.1
Interest rate, 91 Treasury bills 1/	4.6	4.9	4.6	5.0

1/ Average rate of new issues within period. The Administration's forecast assumes continuation of current market rates.

These three characteristics of Federal spending, therefore, imply that neither the Congress nor the Administration can completely forecast and control expenditures. As shown in Table 3, shortfalls have occurred in five out of the last six years, with the average error for those five years being -1.7%.

Table 3
Comparison of Estimated and Actual Outlays
Fiscal Years 1971-1976
(in billions of dollars)

Fiscal Year	Second Budget Estimate	Actual	Actual less Estimate as % of Actual
1971	212.8	211.4	-0.7
1972	236.6	231.9	-2.0
1973	249.8	246.5	-1.3
1974	274.7	268.3	-2.4
1975	314.4	324.6	3.1
1976	373.5	365.6	-2.2

Fiscal Year 1977

The Administration now estimates that FY 1977 outlays will be $406.4 billion, down from the $416.6 billion February forecast. Receipts are estimated to be $353.3 billion, $9.8 billion more than in February. As Table 4 shows, $8.2 billion of the receipts revision was due to the removal of the $50 rebate, and the remainder was due mainly to income changes and technical reestimates.

The fiscal 1977 outlay revision can be attributed to several factors.

First, withdrawal of the Administration's proposed $50 tax rebate--which are counted as outlays when paid to nontaxpayers--reduced the fiscal 1977 estimate by $3.2 billion. (Second line of Table 5.)

Second, drawdowns by State and local authorities for numerous grants categories (highways, waste treatment, community development and local public works) have been slower than expected; some of this slowdown is due in part to the impact of the cold winter on state and local construction.

Third, defense outlays for operations--maintenance, procurement and personnel have been smaller than expected.

Fourth, the employment situation has lowered spending for unemployment compensation but this has been partially offset by a larger than expected cost of living increase for social security recipients.

Fifth, the large grain crop and the resulting lower prices for food grains have increased price support and grain storage expenditures.

Finally, some revisions are of a financial nature. Loan authorizations by the Export-Import Bank and default claims on FHA mortgages were lower than expected.

Overall, approximately two-thirds of the approximately $10 billion outlay shortfall may have been due either to financial factors or to overall economic conditions. These shortfalls are not expected to be made up in fiscal 1978. Furthermore, the Mid-Session Review suggests that some of these shortfall trends are likely to continue into fiscal 1978, especially in the areas of defense operation-maintenance, military personnel costs and state-local construction grants.

Table 4
Changes in Budget Receipts 1/
(Fiscal years; billions of dollars)

	1977	1978
February estimate	348.5	400.7
Changes in legislation	8.0	
(Removal of rebate)	(8.2)	(--)
(Tax Reduction Act of 1977)	(-.5)	(-1.7)
(Delayed enactment of 1977 Tax Act)	(.3)	(-.3)
(Energy proposals)	(--)	(.3)
(Miscellaneous)	(--)	(.4)
Revised income and technical reestimates	1.8	2.0
July Estimate	$358.3	$401.4

1/ Earned income credit payments in excess of an individual tax liability formerly treated as outlays, are now treated as income tax refunds. The FRB staff's revenue and outlay estimates for both fiscal years 1977 and 1978 have been adjusted to account for this reclassification. The net impact of this change on the budget deficit is zero and the change does not affect the NIA estimates.

Table 5
Reconciliation of February Outlay Forecast with July Estimates 1/
(fiscal years; billions of dollars)

	1977	1978
February estimate	$416.6	$458.5
Withdrawal of fiscal proposals	-3.2	-0.2
(rebates and payments)	(-3.2)	(--)
(payroll tax credit and other)	(--)	(-0.2)
Reestimates and other changes:		
Defense and Military Assistance	-3.2	1.1
(Defense)	(-2.0)	(.1)
(Military Assistance)	(-1.1)	(1.0)
Social Security	.6	1.9
Farm Price Supports	1.6	1.7
Unemployment Trust Fund	-.3	-1.0
Strategic Petroleum Storage	-.1	1.1
Export-Import Bank	-.4	-.8
Employment Programs (Labor)	-.8	*
Medicare-Medicaid	-.8	-.1
Mortgage Credit	-.7	-.1
Offshore Oil Receipts	--	.7
Waste Treatment Grants	-.5	-.1
All Other	-2.4	.2
July estimate	$406.4	$462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds.

Since 1972 each Mid-Session Review--excluding the recession year of 1975--has over estimated actual budget outlays by $1 to $3 billion. (Table 6). The FRB staff estimates that fiscal 1977 outlays will be $404 billion; about $2-1/2 billion below the Administration's most recent estimate. We expect continued slow spending during the remainder of FY 1977 in a number of grants categories, especially public works, public employment, waste treatment and community development.

Table 6
Comparison of Mid-Session Forecast (MSF)
with Actual Budget Outlays
(Fiscal years; billions of dollars)

Fiscal Year	Mid-Session Forecast	Actual	Mid-Session Forecast less Actual
1972	233.0	231.9	-1.1
1973	249.8	246.5	-3.3
1974	269.5	268.4	-1.1
1975	323.6	326.1	+2.5
1976	369.1	366.5	-2.6

Fiscal Year 1978

The President's current estimate of FY'78 receipts is $401.4 billion, $0.7 billion above the February forecast. Technical re-estimates and income revisions mainly are responsible for this increase. The FRB staff's forecast is about $4 billion below the estimate presented in the Mid-Session Review, with income assumptions explaining most of the difference.

Fiscal 1978 outlays now are estimated by the Administration to be around $463 billion as compared to February's forecast of $458-1/2 billion. Defense ispending is expected to be $1.1 billion higher due to higher procurement and military assistance outlays. (Since, the President's original budget did contain funds for the B-1 bomber and since the materials in the Mid-Session Review were assembled before the President's decision, then some future downward adjustment to fiscal 1978 defense outlays seems likely.) Social security outlays in FY 1978 have been increased by $1.9 billion due to the Supreme Court decision affecting the eligibility of husbands and widowers, and larger than projected cost of living payments. Other factors responsible for the added FY 1978 spending include higher farm price supports, increased outlays for the petroleum storage program and lower projected offshore oil receipts (negative outlays).

Some outlay shortfall may occur again in fiscal year 1978. The magnitude of the underspending, of course, cannot be predicted with precision. However, the FRB staff expects that the fiscal 1978 shortfall will be about in line with the shortfalls experienced in the two previous years ($8 to 10 billion), with most of the underspending occurring in the defense and grants categories.