Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

September 14, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS Continued

TABLE OF CONTENTS Continued

	Section	Page
INTERNATIONAL DEVELOPMENTS	IV	

TABLES:

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rate)		
Civilian labor force	Aug.	9-2-77	97.7	4.8	2.2	2.5
Unemployment rate (%)1/	Aug.	9-2-77	7.1	6.9	6.9	7.9
Insured unemployment rate (%)1/	Aug.	9-2-77	4.1	3.8	3.7	4.8
Nonfarm employment, payroll (mil.)	Aug.	9-2-77	82.4	1.3	2.6	3.6
Manufacturing	Aug.	9-2-77	19.6	-3.9	.0	3.3
Nonmanufacturing	Aug.	9-2-77	62.8	3.0	3.4	3.6
Private nonfarm:						
Average weekly hours (hr.)1/	Aug.	9-2-77	36.0	36.1	36.3	36.1
Hourly earnings ($)1/	Aug.	9-2-77	5.26	5.26	5.20	4.91
Manufacturing:						
Average weekly hours (hr.)1/	Aug.	9-2-77	40.1	40.3	40.4	40.0
Unit labor cost (1967=100)	July	8-30-77	154.1	.8	2.4	6.9
Industrial production (1967=100)	July	8-15-77	139.0	6.1	8.2	6.4
Consumer goods	July	8-15-77	145.3	7.5	5.6	6.2
Business equipment	July	8-15-77	152.6	14.3	15.2	11.5
Defense & space equipment	July	8-15-77	80.2	.0	4.0	2.8
Materials	July	8-15-77	139.1	2.6	8.2	5.2
Consumer prices (1967=100)	July	8-19-77	182.6	4.6	6.2	6.8
Food	July	8-19-77	194.0	.6	6.3	6.9
Commodities except food	July	8-19-77	165.3	1.5	3.2	5.4
Services	July	8-19-77	195.7	9.3	9.0	8.1
Wholesale prices (1967=100)	Aug.	9-1-77	193.9	1.7	-2.4	5.9
Industrial commodities	Aug.	9-1-77	196.2	6.1	5.2	7.0
Farm products & foods & feeds	Aug.	9-1-77	183.1	-25.0	-30.5	1.4
Personal income ($ bil.)2/	July	8-17-77	1536.0	9.2	6.9	10.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	July	8-30-77	55.6	-5.1	-5.3	8.5
Capital goods industries	July	8-30-77	16.1	-9.8	-11.7	7.5
Nondefense	July	8-30-77	14.2	-9.7	-3.3	3.0
Defense	July	8-30-77	1.9	-10.7	-45.8	57.3
Inventories to sales ratio:1/						
Manufacturing and trade, total	June	9-12-77	1.47	1.46	1.43	1.49
Manufacturing	July	8-30-77	1.60	1.57	1.56	1.64
Trade	June	9-12-77	1.37	1.35	1.33	1.35
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	July	8-30-77	.639	.632	.631	.627
Retail sales, total ($ bil.)	Aug.	9-12-77	59.9	1.7	1.2	9.6
GAF	Aug.	9-12-77	15.1	1.4	5.8	11.7
Auto sales, total (mil. units)2/	Aug.	9-7-77	11.6	6.8	-.7	11.1
Domestic models	Aug.	9-7-77	9.5	8.6	4.2	7.1
Foreign models	Aug.	9-7-77	2.1	-.6	-18.3	34.2
Plant & Equipment expen. ($ bil.)2/	1977 3/	9-7-77	136.49	---	---	13.3
All Industries	QII'77	9-7-77	134.24	3.1	---	13.6
	QIII'77 3/	9-7-77	138.43	3.1	---	13.0
	QIV'77 3/	9-7-77	142.02	2.6	---	13.4
Capital Appropriations, Mfg.	QII'77	8-31-77	15,193	3.9	---	24.3
Housing starts, private (thous.)2/	July	8-16-77	2,064	8.1	9.8	46.1
Leading indicators (1967=100)	July	8-30-77	129.7	-.2	-.6	3.2

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Planned-Commerce September Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming economic information portrays a mixed picture of activity during the summer. Industrial production declined in August and employment gains slowed considerably. However, retail sales increased substantially in July and August after declining in the spring. In the investment sectors, residential building activity has continued strong, and capital spending surveys indicate further expansion of business fixed investment, while inventory strategies remain conservative. Largely due to declining food prices, inflation has moderated in recent months.

Industrial production is tentatively estimated to have declined about half a per cent in August. Approximately 0.2 percentage point of the drop is attributable to the iron ore strike, which began the first of the month. In addition, the level of the index was depressed by the continued impact of strikes in the copper and coal industries that began in July. Exclusive of strike activity, however, output declines were widespread in August. In the final products grouping, business equipment and consumer goods reportedly both declined. Auto assemblies, after allowance for model changeovers, were at a 9.4 million unit annual rate down from 10.0 million in July.

Reflecting the decline in output, capacity utilization in manufacturing probably declined about half a percentage point in August, slipping slightly below 83 per cent--about where it was in May. The

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Average monthly change		Recent Months		
	Apr. 76 to Oct. 76	Oct. 76 to Aug. 77	May 77 to June 77	June 77 to July 77	July 77 to Aug. 77
Nonfarm payroll employment	85	263	200	235	92
(Strike adjusted)	100	256	189	269	79
Manufacturing	-11	66	22	44	-64
(Strike adjusted)	4	57	20	48	-63
Durable	0	49	22	35	-17
Nondurable	-12	17	0	9	-47
Construction	-6	30	15	40	-30
Trade	27	54	12	48	64
Services and finance	59	77	57	113	96
State and local Government	13	28	79	42	24
Total household employment	68	303	271	-118	210
Nonagricultural	83	309	319	7	171

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	July	Aug.
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	5.1	5.2
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.9	6.9	7.1
Teenagers	19.2	18.8	18.8	19.1	18.6	18.1	17.4	17.5
Household heads	5.0	4.9	5.3	5.3	4.8	4.4	4.3	4.6
Married men	4.1	4.1	4.4	4.4	3.9	3.5	3.4	3.5
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.5	6.5	6.8
Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.0	6.9	7.1
1975 factors	7.8	7.5	7.6	7.9	7.6	7.1	6.8	7.0

utilization rate of industrial materials producers declined to about the same level. Compared to similar periods of previous expansions, utilization rates in this sector have remained unusually low, reflecting in part readily available foreign supplies.

Growth in labor demand slowed markedly last month. Nonfarm payroll employment rose only 90,000 in August, following nine months in which the average monthly gain was 280,000. Employment in the service-producing sector continued its upward trend, but manufacturing jobs fell 64,000 from a month earlier and the factory workweek dropped 0.2 hour to 40.1--the second consecutive monthly decline. Within manufacturing, declines in employment and hours were concentrated in the nondurables area--particularly at apparel and textile establishments Employment edged down over the month among hardgoods producers.

With modest gains in employment more than offset by another large increase in the labor force, the unemployment rate rose to 7.1 per cent in August. This was the fifth consecutive month of fluctuation in a narrow band around 7 per cent. Between July and August, the increased joblessness was concentrated among job losers. The progressive rise in black joblessness seen over the past six months continued in August; at 14.5 per cent, their unemployment rate was equal to the record high of September 1975.

Total personal income growth was more rapid in July than in the previous three months as an increase in Social Security payments offset

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	QII	June 1/	July 1/
Current dollars								
Total personal income	10.8	8.9	8.2	11.5	13.1	11.4	5.5	9.2
Nonagricultural income	13.0	8.4	10.0	11.4	12.0	11.9	6.6	10.9
Wage and salary disbursements	13.4	10.1	8.3	10.7	12.7	13.0	5.5	6.6
Private	16.2	11.2	8.9	10.9	14.9	15.1	5.5	6.8
Manufacturing	21.4	11.2	6.0	8.4	17.9	17.5	11.3	4.9
Government	3.6	5.8	6.2	9.5	4.9	5.0	5.5	5.5
Nonwage income	7.6	6.7	7.9	12.3	14.5	8.5	5.2	13.4
Transfer payments	11.5	-3.1	12.4	7.6	11.6	-1.0	-17.2	39.0
Dividends	14.2	17.7	11.9	29.5	1.0	20.1	69.7	2.9
Constant dollars 2/								
Total personal income	5.4	3.8	2.4	6.8	4.3	2.4	-1.1	4.6
Nonagricultural income	7.4	3.4	4.1	6.8	3.3	2.9	-.1	6.2
Wage and salary disbursements	7.8	5.0	2.4	6.0	4.0	3.9	-1.1	1.9

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

salary disbursements continued to be modest. Payroll growth slowed sharply in manufacturing, following five months of substantial increases. Moreover, further slowing of the growth of private wage and salary disbursements is suggested by August wage and employment data.

Consumption expenditures resumed their upward movement after faltering in the late spring. Revised data show that retail sales excluding autos and nonconsumption items rebounded 1.9 per cent in July and preliminary data indicate that these sales advanced 0.9 per cent in August. With the exception of food stores, where prices have declined recently, sales gains in August were widespread. In particular, purchases were up sharply at furniture and appliance outlets and apparel stores as well as gasoline stations.

Total unit auto sales rose to an 11.6 million annual rate as domestic sales rebounded. Some of the pick-up may have been associated with attempts to avoid higher prices for 1978 models. Due in part to incentive contests, domestic purchases have been somewhat erratic recently, but the average selling pace for the last three months has been 9.3 million units--the same strong rate as earlier in the year. Despite relatively thin inventories, August sales of imported cars continued at a rapid 2.1 million unit annual rate. This marked the fifth successive month in which sales of foreign models exceeded a 2 million unit annual rate; they accounted for 20 per cent of total sales during this period.

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

	QI	QII	Aug. QII	June	July	Aug.
Total sales	3.7	1.5	1.5	-1.3	.9	1.7
(Real*)	1.6	-.5	n.a.	-1.8	.8	n.a.
Total, less auto and nonconsumption items	1.8	1.8	1.7	-1.5	1.9	.9
GAF	.1	2.2	6.0	-1.4	5.7	1.4
Durable	7.3	1.3	1.8	-1.2	-.5	3.6
Auto	11.0	-.6	.4	-.4	-3.1	4.5
Furniture and appliances	1.6	3.0	6.0	-2.8	6.0	2.0
Nondurable	2.0	1.6	1.4	-1.4	1.6	.7
Apparel	-.7	-1.7	3.4	-1.3	2.2	2.2
Food	1.4	3.4	.6	-.6	.7	-.3
General merchandise	-.1	3.0	6.6	-1.0	6.5	1.1
Gasoline	2.7	1.4	1.1	-2.8	1.0	2.6

*Deflated by all commodities SA consumer price index.

1/ Staff estimate from weekly data.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976	1977							
	QIV	QI	QII	Mar.	Apr.	May	June	July	Aug.
Total	10.0	11.1	11.7	12.2	11.7	11.7	11.8	10.8	11.6
Imports	1.7	1.8	2.4	2.0	2.4	2.6	2.2	2.1	2.1
Domestic 1/	8.3	9.3	9.3	10.1	9.3	9.1	9.6	8.7	9.5
Large	5.2	6.2	5.9	6.8	6.0	5.7	6.1	5.6	6.0
Small	3.2	3.1	3.3	3.3	3.2	3.3	3.5	3.2	3.5

1/ Parts may not add to the total because of rounding.

Increases in the book value of manufacturers' inventories slowed to an $11.4 billion annual rate in July--the second month of moderation and the smallest increase since March. The slowing was concentrated at durable producers where accumulation in July was about half the very rapid June pace. Reductions were most pronounced in machinery and autos. Still cautious after reducing stocks in June, nondurable goods producers increased inventories only slightly in July. Approximately one-fifth of the increase was in the petroleum and coal grouping; this was probably due to the filling of the Alaskan pipeline. By stage of processing, there was a substantial increase in the rate of accumulation of work-in-process inventories--mainly transportation and other nondurables. Stocks of finished goods increased at a slower rate than in the second quarter. Wholesale trade inventories declined $3.1 billion, after a small rise in May and almost no increase in June.

Despite slower inventory accumulation the ratio of inventories to sales for all manufacturing increased to 1.60 in July from 1.57 in June, as shipments dropped 1.3 per cent. Had shipments continued to increase at their average monthly pace of the last year, the ratio would have edged off in July. The ratio of inventories to sales for wholesale merchants was unchanged at 1.13.

The latest Commerce survey of anticipated plant and equipment expenditures--taken in late July and August--indicates that business is planning a 13.3 per cent increase for 1977. This is the third successive upward revision in spending plans since the initial Commerce survey

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

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	June	July
Manufacturing and trade	23.1	31.5	29.6	10.3	32.8	32.5	20.8	n.a.
Manufacturing	7.5	14.2	15.4	6.5	11.2	17.8	14.3	11.4
Durable	1.7	6.8	6.8	6.4	7.8	10.9	15.2	7.6
Nondurable	5.8	7.5	8.6	.0	3.3	6.8	-.9	3.8
Trade, total	15.6	17.3	14.2	3.9	21.6	14.8	14.6	n.a.
Wholesale	5.1	9.0	4.3	1.6	9.7	2.9	.4	-3.1
Retail	10.5	8.3	9.9	2.2	12.0	11.8	14.1	n.a.
Auto	1.1	.1	4.8	1.3	2.2	2.4	2.8	n.a.

INVENTORY RATIOS

	1975	1976		1977			
	QII	QIII	QIV	QI	QII	June	July
Inventory to sales:							
Manufacturing and trade	1.62	1.53	1.51	1.48	1.47	1.47	n.a.
Manufacturing	1.84	1.67	1.66	1.58	1.58	1.56	1.60
Durable	2.40	2.04	2.04	1.94	1.93	1.91	1.96
Nondurable	1.26	1.27	1.25	1.20	1.20	1.19	1.21
Trade, total	1.40	1.38	1.36	1.36	1.37	1.37	n.a.
Wholesale	1.26	1.22	1.22	1.22	1.19	1.18	1.18
Retail	1.50	1.51	1.47	1.47	1.50	1.51	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.612	.640	.632	.635	.632	.632	.639

for the year was taken last December. It implies average quarterly rates of growth of somewhat less than 3 per cent during the second half of the year following an average rate of 3-1/2 per cent during the first half.

Longer term commitments for capital spending have held up quite well. Manufacturers' newly approved capital appropriations, which typically lead spending by about a year, rose 3.9 per cent in the second quarter after edging up in the first quarter. Excluding the volatile appropriations of the petroleum industry, the increase was 13 per cent in the second quarter In the first half of 1977, such appropriations were 16 per cent above the 1976 average.

Near term commitments data have shown less strength recently. Nondefense capital goods orders fell 9.7 per cent in July after a 4.8 per cent rise in June. Much of the swing was attributable to bookings for commercial aircraft (apparently in large part for export). Machinery orders in this grouping declined 1.8 per cent in July after increasing 2.4 per cent in June. Quarterly increases in machinery orders averaged about 3-1/2 per cent over the year ending in the second quarter.

The dollar value of construction contracts for commercial and industrial buildings rose 7.0 per cent in July, with increases for manufacturing buildings especially large. As measured in square feet, however, contracts fell about 4 per cent in July reflecting reduced commitments for commercial structures.

COMMERCE SURVEY OF ANTICIPATED PLANT AND EQUIPMENT SPENDING FOR 1977
(Per cent increase from 1976)

	Actual Increase 1976	Survey Dates			
		Dec. 1976	Feb. 1977	May 1977	Aug. 1977
All Business 1/	6.8	11.3	11.7	12.3	13.3
Manufacturing	9.4	12.5	12.7	14.2	15.5
Durables	8.4	12.2	13.5	15.9	17.9
Nondurables	10.3	12.7	12.1	12.7	13.5
Nonmanufacturing	4.9	10.4	10.9	10.9	11.6
Mining	5.4	11.0	7.2	10.3	11.3
Railroads	-1.2	10.5	.3	6.8	11.8
Nonrail Transp.	-1.8	-13.7	-19.3	-16.0	-16.2
Electric Utilities	10.6	13.5	17.0	15.5	16.3
Gas Utilities	10.5	17.2	23.1	26.2	27.4
Communications	4.4	14.4	13.2	15.3	14.2
Commercial	1.9	9.5	11.0	8.4	9.7

1/ Commerce results are corrected for systematic bias. On an unadjusted basis the survey showed an 11.7 per cent increase in December, a fourteen per cent increase in February, a 13.7 per cent increase in May, and a 15.3 per cent increase in August.

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS
(Seasonally Adjusted)

	Billions $ 1/	Percentage Changes		
	77QII	76QIV to 77QI	77QI to 77QII	76 2/ to 77H1
All Manufacturing	15.2	1.9	3.9	19.8
Ex. Petroleum	11.9	-1.8	13.2	15.7
Durables	6.8	11.4	3.1	19.7
Nondurables	8.4	-4.8	4.5	19.9
Ex. Petroleum	5.1	-18.2	30.3	10.2
Petroleum	3.3	12.7	-20.0	34.1

1/ Quarterly rate

2/ The average level of appropriations in the first half of 1977 divided by the annual average for 1976.

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

	1976 QIII	1976 QIV	1977 QI	1977 QII	1977 June	1977 July	July 76 to July 77
Contracts and orders for plant & equip.[1]							
Current dollars	-.6	6.1	6.3	12.6	-4.0	-10.5	9.2
1972 dollars	-2.0	4.6	4.6	11.6	-4.5	-11.1	3.3
New orders received by manufacturers							
Total durable goods							
Current dollars	-.8	5.5	5.8	4.2	-1.0	-5.1	8.5
1967 dollars[2]	-2.3	3.1	4.1	2.9	-1.3	-5.9	1.3
Nondefense capital goods							
Current dollars							
Total	5.8	1.9	6.7	4.5	4.8	-9.7	3.0
Machinery	3.6	1.9	6.2	2.3	2.4	-1.8	8.4
Other equipment[3]	13.8	1.8	8.4	11.5	12.1	-32.0	-14.3
1967 dollars	4.5	.3	5.0	3.2	4.3	-10.2	-3.1
Construction contracts for commercial and industrial buildings[4]							
Current dollars	2.2	13.0	.0	1.9	13.5	7.0	28.2
Square feet of floor space	-4.9	4.8	8.5	4.6	-3.3	-4.3	12.0

1/ The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g., electric utilities, pipelines, etc.)

2/ Deflated by appropriate wholesale price index.

3/ Includes civilian purchases of nonvehicular transportation equipment, communications equipment, and ordnance. Unpublished FR estimates.

4/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

Investment in residential construction has continued to be a sustaining force in the expansion. Private housing starts rose to a 2.1 million annual rate in July, extending the current upswing to nearly two and a half years. Starts were 8 per cent above the upward revised pace for both June and the second quarter.

In the single-family sector, starts reached an exceptionally high rate of nearly 1.5 million units in July. Total homes sales remained close to the record second quarter pace, as sales of existing homes rose to a new high. Sales by builders, however, which are typically volatile, dropped 16 per cent.

Multifamily starts rose in July to slightly more than 600,000 units--18 per cent above the June rate and the highest figure in over two years. Approximately three-fifths of this increase was associated with HUD's expanding rental assistance program for low- and moderate-income households (Section 8), although nonsubsidized multifamily starts continued to post moderate gains.

In the public sector, final data now indicate that the Federal budget registered an $8.7 billion deficit in July; outlays and receipts were both slightly below expectations. The outlays shortfall appears to have been spread through most of the budget's functional categories; the slowing in receipts was due mainly to lower collections of corporate and social insurance taxes. Partial data for August suggest that the deficit was $5.3 billion; receipts continued to fall below expectations, but outlays during August appear to have recouped all of the shortfall registered in July.

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

	1976		1977				Per cent change 3/ from:	
	QIII	QIV	QI 1/	QII 2/	June 1/	July 2/	Month ago	Year ago
Single & Multifamily								
Permits	1.34	1.53	1.52	1.63	1.68	1.63	- 3	+33
Starts	1.57	1.77	1.76	1.91	1.91	2.06	+ 8	+46
Under construction 4/	1.11	1.19	1.24	1.33	1.33	n.a.	+ 2	+25
Completions	1.37	1.39	1.59	1.56	1.62	n.a.	+ 6	+18
Single-family								
Permits	.89	1.04	1.06	1.08	1.11	1.14	+ 3	+32
Starts	1.19	1.28	1.31	1.42	1.40	1.46	+ 4	+30
Under construction 4/	.64	.69	.73	.79	.79	n.a.	+ 3	+30
Completions	1.05	1.05	1.19	1.19	1.18	n.a.	+ 1	+12
Multifamily								
Permits	.45	.49	.46	.56	.57	.49	-14	+35
Starts	.39	.49	.45	.49	.51	.60	+18	+112
Under construction 4/	.47	.51	.51	.54	.54	n.a.	+ 1	+18
Completions	.32	.35	.39	.37	.44	n.a.	+24	+38
Mobile home shipments	.24	.25	.27	.26	.26	.25	- 6	+13

1/ Revised.
2/ Preliminary.
3/ Per cent changes based on latest available data.
4/ Seasonally adjusted, end of period.

State and local government spending growth has slowed somewhat from the rapid second quarter pace. The value of construction put-in-place fell 5.4 per cent in July, but such activity is still markedly higher than last winter's depressed level as construction of highways and sewer and water systems have rebounded sharply. Employment rose only moderately in August but the preliminary estimate may understate the strength in this sector as current data do not seem to reflect fully the Federally-subsidized public service workers being added to State and local payrolls.

Food price developments have moderated the overall rise of prices. Consumer prices rose 0.4 per cent in July--the smallest monthly increase this year. Food prices rose 0.1 per cent in July--also the smallest in 1977--as grocery store prices actually declined. Substantially lower retail prices were reported for meats and fresh vegetables. Prices for goods other than for food also rose 0.1 per cent in July, as those for gasoline and used cars fell further and increases moderated for most other nonfood components. Service prices continued to rise rapidly.

August price developments also have been encouraging as wholesale price increases remained small. Finished goods prices increased 0.1 per cent from July to August. A 0.4 per cent increase in prices of producer finished goods more than offset a 0.1 per cent decline for consumer finished goods. This was the third consecutive

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 QII	1977 June	1977 July
All items	100.0	7.0	5.0	4.8	10.0	8.1	6.6	4.6
Food	23.7	6.5	.2	.8	14.6	12.7	9.4	.6
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	4.2	2.9	1.5
Services	37.5	8.1	8.5	6.3	9.8	9.4	9.3	9.3
Memoranda:								
All items less food and energy 2/3/	68.9	6.7	6.9	5.5	8.3	7.1	6.9	6.8
Petroleum products 2/	4.5	10.1	-2.2	9.7	7.1	7.0	0.0	-2.4
Gas and electricity	2.9	14.2	9.8	15.4	10.7	12.1	15.4	21.4

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 July	1977 August
Finished Goods	41.2	6.6	2.9	3.9	8.8	8.4	0	.7
Consumer Foods	10.4	5.5	-1.3	-3.2	12.7	13.8	-8.1	-11.3
Consumer Nonfoods	18.7	6.7	3.3	6.4	8.5	6.5	2.8	4.2
Producer Goods	12.1	8.2	5.8	7.0	5.5	6.3	5.2	5.2
Intermediate Materials 2/	45.3	5.4	4.7	7.9	7.6	4.7	7.7	5.9
Crude Materials 3/	3.8	4.5	10.9	16.1	21.7	-2.0	-.4	22.5
All Commodities	100.0	4.2	3.9	5.3	10.2	3.6	-.6	.6
Farm and Food Products	21.6	-.3	1.0	-3.2	19.1	-2.5	-25.1	-25.0
Industrial Commodities	78.4	6.0	5.0	7.8	7.9	5.3	6.2	6.1
Industrial Commodities ex. Fuels and Power	67.7	5.0	5.8	6.4	6.4	4.0	7.2	6.5

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
3/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.

month of little or no change in finished goods prices. This index, recently introduced by BLS, measures only changes in prices of goods eventually sold to final users and, therefore, does not double count changes as goods move through the various stages of processing.

Prices for farm products declined 4.3 per cent in August reflecting, in part, the increasingly likely prospect of large harvests this year. Faced with good harvests and large carryovers from 1976 crops, the Administration is seeking Congressional authority to reduce wheat acreage in 1978.

The volatile average hourly earnings index rose at a 1.6 per cent annual rate in August, following an upward revised 8.5 per cent rate in July. From a year ago, the earnings index had risen by about 6-3/4 per cent.

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	July 2/	August 2/
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.6	8.5	1.6
Construction	5.6	7.4	5.3	3.6	6.0	4.2	6.3	-8.0
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.6	9.1	6.2
Trade	5.2	5.7	6.7	8.2	9.4	6.6	10.6	-2.6
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	7.5	7.5	-8.0
Services	8.3	6.6	4.8	7.8	10.9	5.6	4.5	5.7

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.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	August	35.65	10.1	10.7	4.9
Nonborrowed reserves	August	34.65	-13.1	1.5	2.2
Money supply					
M1	August	328.3	5.5	9.5	10.7
M2	August	787.7	6.4	10.5	11.1
M3	August	1329.2	11.2	12.5	12.6
Time and savings deposits (less CDs)	August	459.4	7.1	11.2	11.4
CDs 2/	August	63.2	.4	.9	-1.8
Thrift deposits (S&Ls + MSBs + Credit Unions)	August	541.5	18.2	15.4	15.1
Bank credit (end of month)	August	844.5	12.3	10.3	10.8

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	9/7/77	5.97	-.05	.58	.72
Treasury bill (90 day)	"	9/7/77	5.57	.17	.53	.47
Commercial paper (90-119 day)	"	9/7/77	5.88	.28	.42	.50
New utility issue Aaa	"	9/9/77	8.02	-.05	-.09	-.26
Municipal bonds (Bond Buyer)	1 day	9/8/77	5.48	-.15	-.17	-1.04
FNMA auction yield (FHA/VA)		9/7/77	8.74	-.01	-.04	-.18
Dividend price ratio (common stocks)	wk endg.	9/7/77	4.72	.05	.15	1.23
NYSE index (12/31/65=50)	end of day	9/12/77	52.54	-1.07	-1.40	-3.11

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/	August	2.0	--	12.5	-1.7
Consumer instalment credit outstanding 1/	July	2.3	1.4	16.6	11.5
Mortgage debt outstanding (major holders) 1/	June	9.2	4.9	42.6	28.7
Corporate bonds (public offerings)	August	1.9e	1.6	16.4e	17.8
Municipal long-term bonds (gross offerings)	August	4.0e	2.8	31.5e	23.2
Federally sponsored agcy. (net borrowing)	August	-.3	.8	3.6	2.1
U.S. Treasury (net cash borrowing)	September	5.9e	3.2	32.3e	51.3

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

DOMESTIC FINANCIAL DEVELOPMENTS

The slowing in the pace of economic expansion in the current quarter has been accompanied thus far by little apparent effect on most financial flows. Although expansion in short-term business credit has moderated, corporate offerings of securities have remained substantial, and net extensions of mortgage and consumer instalment credit to households appear to be continuing at close to the very rapid second quarter pace. Borrowing by the public sectors has accelerated, with the Treasury raising a large volume of new money following a seasonal debt paydown in the second quarter, and State and local bond issuance has remained high. Moreover, while the growth in the key monetary aggregates slowed appreciably in August after a surge in July, the combined July-August expansion still exceeded the rapid pace in the second quarter.

Yields on most long-term securities are unchanged or somewhat lower than at the time of the August FOMC meeting, as the effect of reductions in the expected growth of credit demands resulting from the publication of weaker economic data early in the intermeeting period has been only partly offset by more recent firming in the money markets. Short-term rates rose in early September, in response to a strengthening in money supply growth at the end of August and Desk actions indicating some increase in the System's Federal funds rate target. On balance, short-term rates now are as much as 25 basis points above their mid-August levels.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1976 1/		1977 2/				Change from:	
	May-June High	December Low	July FOMC 19	Aug. FOMC 16	Aug. 30	Sept. 13	July FOMC	Aug. FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	5.35	5.94	6.02	6.07 3/	+.72	+.13
Treasury bills								
3-month	5.53	4.27	5.22	5.67	5.59	5.90	+.68	+.23
6-month	5.93	4.50	5.45	5.97	5.86	6.10	+.65	+.13
1-year	6.32	4.62	5.56	6.09	5.98	6.18	+.62	+.09
Commercial paper								
1-month	5.65	4.48	5.25	5.80	5.80	6.00	+.75	+.20
3-month	5.90	4.63	5.38	5.86	5.88	6.13	+.75	+.25
Large negotiable CD's 4/								
3-month	5.95	4.60	5.35	6.05	5.95	6.13	+.78	+.08
6-month	7.00	4.71	5.65	6.38	6.20	6.50	+.85	+.12
Bank prime rate	7.25	6.25	6.75	6.75	7.00	7.00	+.25	+.25
Intermediate- and Long-term rates								
Corporate								
New AAA 5/	8.95	7.93	8.14	8.07	8.01	8.02p	-.12	-.05
Recently offered 6/	8.84 7/	7.84	8.12	8.05	8.03	8.01p	-.11	-.04
Municipal (Bond Buyer) 8/	7.03 9/	5.83	5.64	5.63	5.58	5.48	-.16	-.15
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.54	6.89	6.74	6.84	+.30	-.05
7-year	7.89	6.32	7.12	7.32	7.10	7.24	+.12	-.08
20-year	8.17	7.26	7.62	7.72	7.52	7.58	-.04	-.14

Stock prices	January Low	December High	FOMC Jul.19	FOMC Aug.16	Aug. 30	Sept. 13	July FOMC	Aug. FOMC
Dow-Jones Industrial	881.51	994.18 10/	919.29	869.28	858.89	854.56	-64.73	-14.72
N.Y.S.E. Composite	49.06	56.96	55.70	53.53	52.77	52.56	-3.14	-.97
AMEX	86.42	107.26	124.21	119.27	117.97	117.94	-6.27	-1.33
Keefe Bank Stock 6/	520	664	638	631	617	611	-27	-20

1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending September 14.
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

M_1 grew at a 5.5 per cent annual rate in August, considerably below its very rapid rate of expansion in July, but still high relative to growth rates in months following other recent money supply bulges. Over the two-month July-August period, growth has averaged about 12 per cent at an annual rate. With special factors apparently having accounted for only a portion of the surge in July and little of the August expansion, growth in July and August combined may be related principally to underlying transactions demands for money.

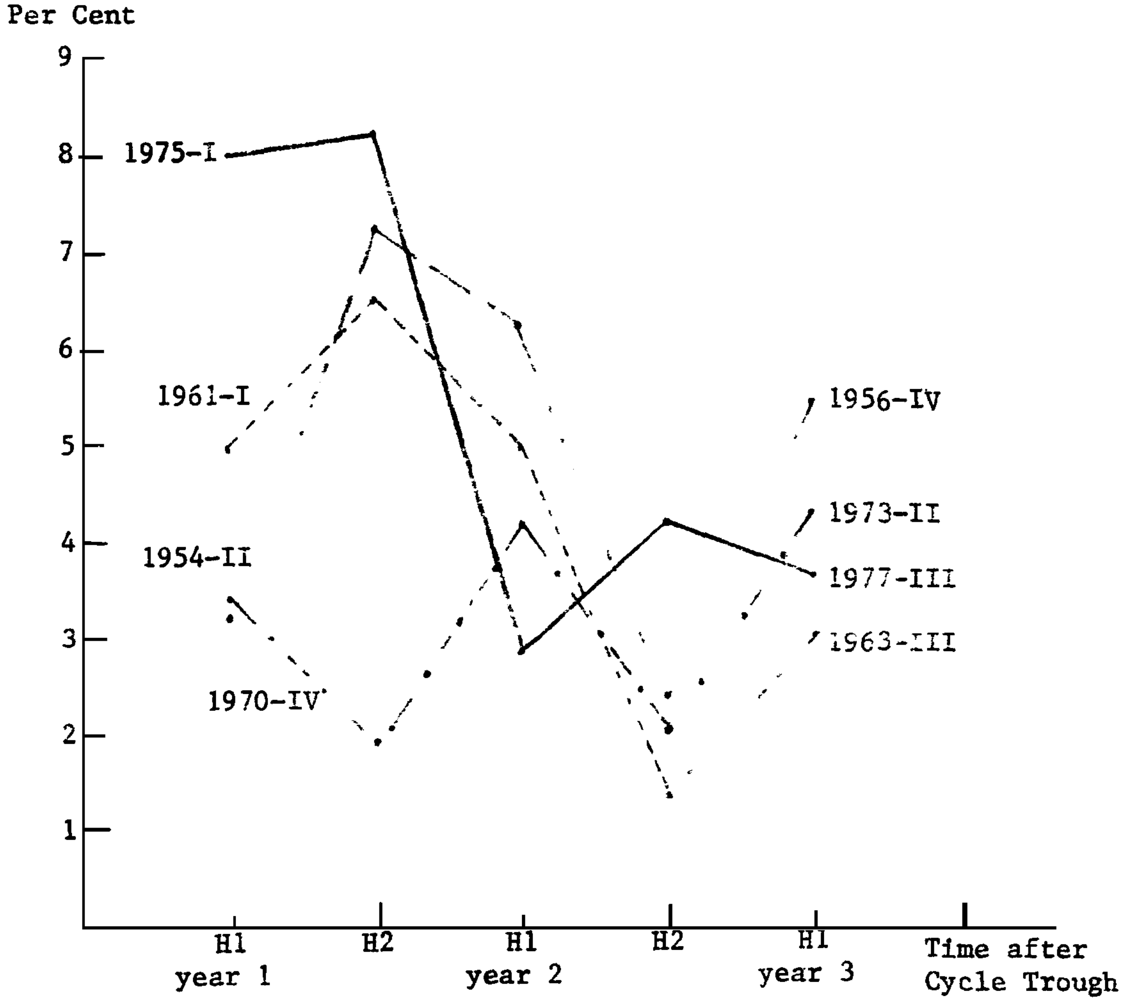
The slowing in the growth of GNP and the more rapid rate of increase in money thus far evident in the third quarter imply some further moderation in the rise of M_1 velocity. This decline in V_1 growth is occurring despite substantial increases in short-term interest rates over the past few months, which might ordinarily be expected to induce more intensive efforts to economize on cash balances. As can be seen in Chart 1, the projected decline in the growth of V_1 over the second and third quarters is unusual for this stage of a business cycle, thus extending the rather atypical pattern displayed by this measure in the current recovery. When averaged over the last eighteen months, however, the rate of V_1 expansion has been similar to comparable periods in previous cycles. This similarity may indicate that the effects of an acceleration in financial innovation and other unusual factors tending to reduce money demand and increase velocity early in the present recovery have become less pronounced.

MONETARY AGGREGATES
(Seasonally adjusted) 1/

	1977 QI	1977 QII	1977 June	1977 July	1977 August	1977 July-August	1977 through August
	Net changes at annual rates, per cent						
Major monetary aggregates							
1. M_1 (currency plus demand deposits	4.2	8.5	4.5	18.3	5.5	11.9	7.6
2. M_2 (M_1 plus time & savings deposits at CBs other than large CDs)	9.9	9.3	8.1	16.6	6.4	11.6	9.6
3. M_3 (M_2 plus all deposits at thrift institutions	11.3	10.0	9.8	16.1	11.2	13.7	11.2
Bank time and savings deposits							
4. Total	12.5	8.3	13.2	11.0	6.9	9.0	9.6
5. Other than large negotiable CDs	14.0	9.8	10.7	15.4	7.1	11.3	11.0
6. Savings deposits	21.9	7.9	-2.3	8.5	13.5	11.3	10.2
7. Individuals 2/	16.0	8.3	1.2	14.0	15.7	15.0	10.9
8. Other 3/	103.0	2.5	-40.7	-67.4	-12.0	-39.4	2.0
9. Time deposits 4/	7.1	11.6	22.5	21.6	1.0	11.3	11.7
10. Small time 5/	7.9	14.2	10.5	15.5	10.2	13.0	12.8
11. Large time 4/	6.2	5.3	47.9	36.0	-17.6	8.9	9.7
Deposits at nonbank thrift institutions 6/							
12. Total	13.4	11.1	12.0	15.5	18.2	17.0	13.5
13. Savings & loan assoc.	14.7	12.3	13.0	16.6	20.3	18.6	14.9
14. Mutual savings banks	9.2	6.6	7.7	10.2	13.0	11.7	8.7
15. Credit unions	16.2	14.5	17.7	20.6	16.5	18.7	16.6
	Average monthly changes, $ billions						
Memoranda:							
16. Total US Govt. deposits	0.0	-0.4	-0.5	1.7	-1.5	0.1	-0.1
17. Negotiable CDs	-0.4	0.6	1.6	-1.1	0.4	-0.4	0.0
18. Nondeposit sources of funds 7/	0.4	1.1	-0.3	0.0	2.2	1.1	0.8
19. Total attracted from the public 8/	5.3	7.2	6.5	9.6	6.8	8.2	6.8

1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of businesses, governments, and others, 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.
7/ The nondeposit sources of funds series on line 18 is a new series which replaces a series of the same title. The new series represents nondeposit borrowings of commercial banks from nonbank sources. It includes Federal funds purchased and security RPs plus other liabilities for borrowed money plus the old nondeposit sources of funds series (mainly Eurodollar borrowings and loans sold) less interbank loans.
8/ Sum of M_2, negotiable CDs, and nondeposit sources of funds.

Rates of Change in V_1 for Six-Month Periods
During the Current and Past Three Expansions



NOTE: Dates are the beginning of each cycle and the last quarter included. The first half of year 3 in the current expansion incorporates the latest Board GNP projections and monetary aggregates estimates for the third quarter of 1977. V_1 is GNP/M_1. Data are seasonally adjusted and at annual rates.

Growth of the time and savings deposit component of M_2 also slowed markedly in August, reducing expansion of these deposits over the two-month July-August period to 11.3 per cent--just under the pace of the first half of the year. The weakness in August resulted mostly from a decline in large nonnegotiable CD's. The growth of household savings deposits (line 7) accelerated slightly from a high level in July, and inflows of small time deposit accounts (line 10) slowed only moderately. For July and August together, the total of individual savings and small time deposits increased at a faster rate than in the first half of the year.

Deposit inflows at thrift institutions, already strong in July relative to earlier this year, accelerated slightly further on a monthly average basis in August to an 18.2 per cent annual rate (line 12). Data available from savings and loan associations for July indicate that these institutions also enjoyed a substantial pickup in savings deposit growth in that month.

These flows would seem to indicate that increases in market interest rates this quarter have not seriously impaired the ability of banks and thrift institutions to retain the bulk of their maturing wild card deposits. Nonetheless, the reallocation of these deposits may account, in part, for the pattern of time and savings deposit expansion observed in recent months. For example, the large increase in the growth of household savings deposits, which has occurred despite a substantial rise in short-term market rates, may reflect the use of these accounts as a temporary repository of wild card proceeds. In addition, the strength of thrift flows relative to commercial bank time and savings deposits may be explained partly by the higher deposit rate ceilings at thrifts, enabling them to capture a portion of maturing commercial bank wild card deposits.

As growth in the deposit components of the monetary aggregates decelerated in August, commercial banks increased their reliance on both negotiable CD's and nondeposit sources of funds to support expansion in earning assets (lines 17 and 18). Of the $2.2 billion increase in the use of nondeposit funds in August, $800 million was obtained at the Federal Reserve discount window, where member bank borrowing rose from an average of $323 million in July to $1.083 billion in August as the spread between the Federal funds and discount rates widened considerably. Following the rise in the discount rate to 5-3/4 per cent in late August, borrowings receded to an average of $636 million in the first week of September.

Commercial banks increased their earning assets somewhat more rapidly in August than they had in July, reflecting a marked slowing in the rate at which Treasury securities were being divested. Other security holdings increased more slowly in August than in July, but loan growth was maintained at the advanced pace of the previous month.

Business Credit

Short-term business borrowing, as measured by the total of bank loans to business and commercial paper issuance by nonfinancial corporations, accelerated in August to a 12.5 per cent annual rate from 6.1 per cent in July.[1/] Average growth of such credit for the two months, however, is well under the second quarter rate of 15.2 per cent. This slowing may result in part from a moderation of borrowing demands due to the reduced pace of economic expansion, which should be transmitted quickly to credit markets, given the care with which businesses seem to be managing their inventory position.

Most of the slowing in short-term business borrowing has been concentrated in the commercial paper market. Bank lending to businesses rose in August, and for the third quarter to date has been only somewhat below the second quarter rate; however, commercial paper outstanding has changed little over the two months, as an increase in August offset most of the decline registered in July. The weakness in commercial paper is reportedly attributable in part to paydowns by corporations using the proceeds of new long-term debt issues. In addition, however, the relative strength displayed by

1/ These data do not include business borrowing from finance companies, which accelerated sharply in July in association with rising automobile dealer inventories. Including credit obtained from this source, short-term business borrowing rose at an annual rate of 10.6 per cent in July, after rising 16.6 per cent in the second quarter.

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

	1977 QI	1977 QII	1977 June	1977 July	1977 August	1977 July-August	1977 through August
Total loans and investments2/	9.5	11.2	8.9	9.3	12.3	10.8	10.7
Investments	10.6	10.3	5.6	-5.6	3.3	-1.2	7.6
Treasury securities	25.9	6.6	8.0	-27.4	-3.5	-15.4	8.2
Other securities	.5	12.9	3.9	9.4	7.8	8.6	7.3
Total loans2/	9.1	11.5	10.4	16.0	16.4	16.3	12.1
Business loans2/	8.1	11.9	15.3	8.2	12.5	10.4	10.3
Security loans	-2.3	2.3	-64.2	20.3	80.0	50.8	12.7
Real estate loans	12.6	15.1	17.6	14.3	16.4	15.4	14.7
Consumer loans3/	10.3	14.6	15.8	8.9	n.a.	n.a.	n.a.
Memoranda:							
1. Commercial paper issued by nonfinancial firms3/	15.0	61.2	48.9	-19.2	13.0	-3.2	28.5
2. Business loans at banks plus nonfinancial commercial paper	8.6	15.2	17.7	6.1	12.5	9.3	11.5
3. Business loans at banks plus business loans at finance companies plus nonfinancial commercial paper	10.8	16.6	18.3	10.6	n.a.	n.a.	n.a.

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

bank loans may reflect an increased bank willingness to expand loan portfolios. Despite increases in the prime rate over the past few months, including a rise from 6-3/4 to 7 per cent in late August, banks have permitted the spread of the prime rate over short-term commercial paper rates to narrow to the lowest level in two years.[1/] Moreover, nonprice loan terms have been relaxed; according to the August Bank Lending Practices Survey many banks have continued to ease compensating balance requirements and to increase the availability of term loans.[2/]

Corporate demands for long-term credit have remained substantial this summer. Gross issues of publicly-offered bonds fell to $1.9 billion in August from $2.4 billion in July, but most of this decrease can be ascribed to normal seasonal influences. Utilities and industrial firms reduced their public offerings of bonds in August, while financial concerns--including two New York City-based prime-rated bank holding companies--continued to sell relatively large amounts of longer-term notes and bonds.[3/]

1/ On September 13, one large New York bank announced a further increase in its prime rate to 7-1/4 per cent. Given the increase of about 25 basis points in commercial paper rates in the last week, a more general rise in the prime to 7-1/4 per cent would not widen the spread appreciably.

2/ A detailed discussion of the results of this Survey will appear in the Supplement to the Greenbook.

3/ The August calendar also included $97.2 million of ship financing notes and bonds guaranteed by the U.S. Government under the Merchant Marine Act of 1936. More than $800 million of these securities have been sold thus far in 1977, versus $357 million in all of 1976.

About two-thirds of the publicly offered bonds in August were rated less than Aa, and as a result lower-rated issuers have accounted for about half the public bond offerings thus far in the third quarter, a greater proportion than in the first two quarters of the year. This shift in the composition of supply has been accompanied by a further narrowing of risk premia since late spring, bringing most such measures to well below their averages in recent years. The lower risk premia may partly reflect the availability of funds in the private placement market, a major source of long-term capital to lower-rated corporate borrowers. Private placements are estimated to have been made in July and August at about the pace of the first half of the year. Underwriters report that insurance companies and pension funds, major investors in private placements, continue to dominate the public corporate bond market as well. In the first and second quarters of 1977, their purchases accounted for virtually all the bonds issued by corporate and foreign borrowers.

Stock prices have declined since the August FOMC, apparently in reaction to the evidence of a slowing in economic growth and to the recent rise in money market interest rates. The weakness in stock prices in recent months, together with the strong gain in corporate profits in the second quarter, has further reduced aggregate price-earnings ratios. The price-earnings ratio for the Dow-Jones industrial average, for example, currently stands at 8.8; it was 10.3 at the beginning of 1977, already well below its 1976 high of 13.3.

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

	1976	1977					
	Year	QI	QII e/	July e/	Aug. e/	Sept. f/	Oct. f/
		Gross offerings					
Corporate securities--total	4,445	4,064	3,863	4,000	3,400	3,200	3,600
Publicly offered bonds	2,204	2,166	1,854	2,400	1,900	1,700	2,000
By quality 1/							
Aaa and Aa	1,040	1,230	1,065	1,550	625	--	--
Less than Aa 2/	1,154	936	789	850	1,275	--	--
By type of borrower							
Utility	675	734	772	450	385	--	--
Industrial	874	709	462	1,200	750	--	--
Other	655	723	620	750	765	--	--
Privately placed bonds	1,317	1,026	1,096	1,000	900	900	1,000
Stocks	924	872	913	600	600	600	600
By type of issue							
Common	692	622	721	350	400	--	--
Preferred	232	250	192	250	200	--	--
Foreign securities--total	852	443	748	1,151	250	--	--
Publicly offered 3/	520	286	600	935	150	450	300
Privately placed	332	157	148	216	100	--	--
State and local gov't. securities--total	4,756	5,152	7,518	4,617	5,300	5,600	5,100
Long-term	2,932	3,565	4,522	3,200	4,000	3,800	3,800
Short-term	1,824	1,587	2,996	1,417	1,300	1,800	1,300
		Net offerings					
U.S. Treasury	4,850	4,703	-1,717	685	10,200	2,900	2,900
Sponsored Federal agencies	361	734	561	-263	-275	2,122	107

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.

Municipal and Treasury Securities

Gross offerings of long-term State and local debt totaled $4 billion in August, up substantially from the volume offered in July. Part of the large August volume consisted of offerings originally slated for September and advanced to take advantage of favorable market conditions. September's calendar, however, remains quite large, suggesting strong continuing demands for funds.

A large proportion of the State and local calendar is being generated by refunding operations. The $1.1 billion of new issues sold for this purpose in August was a record for any single month. Over the January-August period, municipal issuers offered $6 billion of advance refunding securities, or about 20 per cent of the total tax-exempt bond volume.

The pace of commercial bank purchases of tax-exempt securities appears to have decreased in the third quarter from a very rapid second quarter rate however, dealers report ample availability of funds--especially through property/casualty insurance companies--and average yields have declined to 3-year lows, despite the large supply of new issues.

The Treasury has remained an active borrower in long-term markets, raising $4.5 billion in new money since the last FOMC meeting in conjunction with regular offerings of 2- and 4-year notes.1/ The

1/ Foreign official institutions continued to be an important source of demand for coupon issues, purchasing nearly $900 million of the new notes through noncompetitive tenders. So far this year, these institutions have bought $6.9 billion of marketable Treasury issues in this manner.

Treasury also has auctioned $1.8 billion of short-dated cash management bills, which are being rolled over into 3- and 6-month issues as they mature. This marks the first substantial use by the Treasury of the bill market for new money since late last year. Reflecting the more optimistic outlook for long-term interest rate movements that developed after the August FOMC meeting, dealers have increased their holdings of coupon issues by around $1.0 billion, greatly reducing their sizable net short positions.

Mortgage and Consumer Credit

Growth in mortgage credit apparently remained quite strong in August. Mortgage loans at commercial banks continued to rise rapidly, and new issues of GNMA-guaranteed mortgage-backed securities increased further as mortgage bankers continued to use this outlet to distribute large incoming quantities of VA and FHA mortgages at relatively attractive prices. It also seems likely that mortgage holdings of S&L's rose substantially again in August, considering the record amount of mortgage commitments outstanding at the end of July and the further strong deposit inflows in August.

This deposit growth together with large inflows from mortgage repayments have enabled savings and loan associations to maintain a high level of mortgage market lending without significantly impinging on their liquidity positions. After a substantial June increase, outstanding FHLB advances declined on a seasonally adjusted basis in July and August. At the same time, liquidity ratios at insured S&L's, which had declined in June, returned to 9.6 per cent at the end of July, just below the average in the first half of the year.

Interest rates on new commitments for conventional home mortgages in the primary market have changed little on balance since the last FOMC meeting. As a result, the spread of home mortgage yields over yields on new issues of corporate bonds has remained exceptionally large. The widening of this spread since last winter has been a factor in the increased mortgage investment activity of such diversified lenders as mutual savings banks.

Consumer instalment credit increased at a 14 per cent seasonally adjusted annual rate in July, only a little below the advanced rate of the second quarter, but well below the record rate of expansion in March. Consumer credit growth probably continued at least as strong in August in association with a sharp rebound in new car sales and large sales gains at retail chains. The slight slowing of growth in July from the second quarter rate resulted from an increase in the pace of repayments--extensions in July were little changed from the second quarter average.

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
1977--High	8.95	--	+92	14
Low	8.65	--	+37	2
1977--Mar.	8.70	+ 5	+48	2
Apr.	8.78	+ 8	+47	11
May	8.85	+ 7	--	12
June	8.88	+ 3	+81	8
July	8.93	+ 5	+76	7
Aug. 5	8.95	+ 2	--	10
12	8.95	0	+88	10
19	8.93	- 2	+82	9
26	8.93	0	+92	14
Sept. 2	8.88	- 5	+91	13
9	8.90	+ 2	+88	

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	7.23	4.22	8.79	8.08
Low	123	83	8.81	50	35	8.46	7.56
Aug. 1							8.04
8	200	144	9.06	195	143	8.75	8.04
15							8.08
22	170	92	9.06	120	78	8.77	8.04
29							7.97
Sept. 6	139	114	9.06	50	35	8.74	7.96
12							8.07

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.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 1/ QI	QII	June	July
Total							
Change in outstandings 2/							
Billions of dollars	8.9	7.3	19.9	26.5	30.3	27.4	27.8
Per cent	6.1	4.7	12.3	14.6	16.0	14.1	14.1
Bank share (per cent)	41.5	39.6	54.0	44.0	49.2	56.2	43.3
Extensions 2/							
Billions of dollars	147.0	163.9	192.4	211.2	221.3	223.4	221.0
Bank share (per cent)	46.2	47.2	48.9	48.0	48.3	48.5	48.5
Liquidations 2/							
Billions of dollars	148.0	156.6	172.4	184.7	191.0	196.0	193.2
Ratio to disposable income	15.2	14.4	14.6	14.7	14.7	14.8	14.7
Automobile Credit							
Change in outstandings 2/							
Billions of dollars	0.3	3.2	10.2	12.1	13.0	10.8	12.1
Per cent	0.6	6.1	18.3	18.3	18.9	15.2	16.7
Extensions 2/							
Billions of dollars	45.3	51.5	62.8	69.3	71.9	71.7	70.5
New car loans over 36 months as per cent of total new car loans							
Commercial banks 3/	8.8	14.0	25.4	36.3	38.9	n.a.	n.a.
Finance companies	8.6	23.5	33.9	41.5	45.1	45.4	
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	10.82	10.82	10.87
Finance companies	12.61	13.11	13.17	13.15	13.12	13.12	

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.
2/ Data are revised to reflect new historical benchmarks and other information.
3/ 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.

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

September 14, 1977

IV - T - 1

		1976		1977			
		YEAR	Q4	Q1	Q2	June	July
1.	Merchandise exports	114,695	29,710	29,476	30,396	10,001	10,392
2.	Merchandise imports	123,918	33,293	36,456	38,318	13,378	12,577
3.	Trade Balance	-9,223	-3,583	-6,980	-7,922	-3,377	-2,185
4.	Bank-reported private capital flows	-10,071	-4,511	-1,851	895	-1,934	2,995
5.	Claims on foreigners (increase -)	-21,039	-9,333	3,446	-5,426	-2,332	2,278
6.	Long-term	-2,362	-718	-306	-28	62	-39
7.	Short-term	-18,677	-8,615	3,752	-5,398	-2,394	2,317
8.	(of which on commercial banks in offshore centers 2/)	(-12,633)	(-4,352)	(2,058)	(-3,583)	(-1,462)	(2,610)
9.	Liabilities to foreigners (increase +)	10,968	4,822	-5,297	6,321	398	717
10.	Long-term	208	255	48	98	90	-99
11.	Short-term	10,760	4,567	-5,345	6,223	308	816
12.	to commercial banks abroad	8,030	2,610	-4,502	3,869	446	2,609
13.	(of which to commercial banks in offshore centers 3/)	(4,115)	(3,320)	(-3,315)	(3,268)	(311)	(1,455)
14.	to other private foreigners	2,719	1,143	366	687	234	-229
15.	to int'l and regional organizations	11	814	-1,209	1,667	-372	-1,564
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	-89	1,047	-1,308	11	-107
17.	Other private securities transactions (net)	-7,480	-2,150	230	-889	-535	-978
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	21	879	792	286	186
19.	(of which stocks)	(85[illegible])	(-174)	(376)	(371)	(109)	(104)
20.	U.S. net purchases (-) of foreign securities	-8,730	-2,171	-649	-1,681	-821	-1,164
21.	(new foreign issues of bonds and notes)	(-9,954)	(-2,491)	(-1,272)	(-1,924)	(-868)	(-1,231)
22.	Change in foreign official res. assets in the U.S.	13,091	6,069	4,972	6,645	1,698	3,828
23.	OPEC countries (increase +)	6,770	540	2,694	934	-865	-1,427
24.	(of which U.S. corporate stocks)	(1,828)	(308)	(160)	(341)	(152)	(108)
25.	Other countries (increase +)	6,321	5,529	2,278	5,711	2,563	2,401
26.	Change in U.S. reserve assets (increase -)	-2,530	228	-388	6	63	263
27.	Other transactions and statistical discrepancy (net payments (-))	13,430	4,036	2,970	2,573	4,074	-3,816
28.	Other current account items	8,357	2,102	2,701			
29.	Military transactions, net 4/	-34	120	-18			
30.	Receipt of income on U.S. assets abroad	21,3[illegible]9	5,421	6,067			
31.	Payment of income on foreign assets in U.S.	-11,561	-2,997	-2,897			
32.	Other services, net	2,743	598	556			
33.	Remittances and pensions	-1,878	-473	-518			
34.	U.S. Gov't grants 4/	-2,282	-567	-489			
35.	Other capital account items	-4,761	-1,808	-425			
36.	U.S. Gov't capital, net claims 4/ (increase -)	261	-180	72			
37.	U.S. direct investment abroad (increase -)	-4,596	-822	-532			
38.	Foreign direct investment in U.S. (increase +)	2,176	403	827			
39.	Nonbank-reported capital, net claims (increase -)	-2,602	-1,209	-792			
40.	Statistical discrepancy	9,834	3,742	694			
MEMO:							
41.	Current account balance 4/	-866	-1,481	-4,279	n.a.	n.a.	n.a.
42.	Official settlements balance	-10,561	-6,297	-4,584	-6,651	-1,761	-4,091
43.	O/S bal. excluding OPEC	-3,791	-5,75[illegible]	-1,890	-5,717	-2,626	-2,064

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonall 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 offsettin capital transactions.

*/ Less than $50,000.

Foreign exchange markets. In the five weeks since the last green book (a) the Swedish krona was devalued 10 per cent and withdrawn from the European joint float, (b) the Norwegian and Danish kroner were devalued 5 per cent within the snake, (c) the strong upward pressure on the British pound continued and intensified, and (d) several major countries announced monetary and fiscal actions designed to stimulate their economies. During this period the trade-weighted value of the dollar appreciated 0.7 per cent -- mainly because of the devaluation of the Swedish krona, rising dollar interest rates,

.

When the Swedish government withdrew its currency from the joint float on August 28, it said that the krona would rejoin the snake when Sweden's trade and balance of payments positions improve. The government also announced a 2 per cent cut in payroll taxes and it imposed price controls. Norway and Denmark stated that the 5 per cent devaluations of their currencies were forced on them by Sweden's larger devaluation.

.

The strong upward pressure that the British pound has been subject to since the beginning of the year continued and intensified during the period. Market participants seem to be impressed with the government's tough stance in wage negotiations and its success in persuading the Trades Union Congress to vote in favor of a 12-month waiting period between wage increases. Further, because U.K. foreign exchange reserves are very large and increasing and because the pound has been inching up lately, the market evidently thinks it much more likely that the government will allow the pound to appreciate than depreciate in the near future. In consequence, a speculative capital inflow appears to be taking place, similar to those that occurred under pegged rates when a revaluation was anticipated.

. Their reserves are estimated to now total $16.7 billion, compared to $4.2 billion at the beginning of the year. U.K. short-term interest rates continue to decline; last Friday the Bank of England lowered the Minimum Lending Rate a further 1/2 percentage point to 6-1/2 per cent.

Several major countries either announced expansionary monetary and fiscal policies during the period or plan to announce such policies in the near future.

On August 25 the Bundesbank cut its reserve requirements by 10 per cent and increased its rediscount quotas. Thus far these actions have had no noticeable effect on the level of German interest rates. This week the government is expected to announce a stimulative tax package which will probably include a liberalization of personal income tax exemptions and corporate depreciation allowances.

The Bank of Japan cut its discount rate 3/4 percentage point to 4-1/4 per cent on September 5, leading to a similar drop in market interest rates. The government also released details of a fiscal package totaling about $7-1/2 billion (1 per cent of Japanese GNP). Most of the outlay is for public works and housing loans.

The Bank of France also cut its discount rate, by 1 percentage point to 9-1/2 per cent, on August 31 as part of a package designed to provide mild stimulus to the economy.

Similarly, the Bank of Italy lowered its discount rate on August 29 from 13 to 11-1/2 per cent. The Bank also repaid on schedule $500 million of a $2 billion loan from the Bundesbank. Both Italy and France's discount rate cuts followed earlier declines in market interest rates.

During the period the System purchased a net $16 million equivalent of marks and $56 million equivalent of Swiss francs. The francs were used to reduce the Swiss franc swap debt to $639 million.

OPEC investment flows. The OPEC surplus on goods, services, and private transfers in the first half of 1977 appears to have been appreciably higher than in either of the two halves of 1976 and may have been about $26 billion. The value of exports was boosted by the oil-price increases in January and by higher export volumes until production was reduced by a refinery fire in Saudi Arabia in May. In contrast, OPEC imports in the early months of this year were well below the levels of late 1976, and in the first half of 1977 imports may not have exceeded their level of the second half of last year. With OPEC grant aid in the first half of 1977 running at about $1 billion, and with no apparent shortfall in cash receipts from oil sales compared with the level of accruals, nearly all of the surplus on goods, services, and private transfers was available for investment. Net investments by the OPEC countries in the first half are here estimated at $25 billion, although only about one-half of that amount can be identified through statistical reports.

OPEC investments in the United States in the first six months of this year were $6.3 billion, equivalent to about one-half of the identifiable assets acquired. This was smaller than the $7.1 billion flow to the United States in the comparable period of 1976. For the portion of OPEC investments here that consist of bank, money market, and portfolio securities, data are available through July. The inflow in July this year considerably exceeded that of a year earlier, and the data for six months on total OPEC investments in the United States together with the partial data for July show an inflow only $0.2 billion less than the comparable 1976 magnitude. The year-over-year decline reflects, in particular, reduced OPEC purchases of U.S. stocks.

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

	1976 Year	1976 1st Half	1976 July	1977 Q-1	1977 Q-2	1977 1st Half	1977 July
I. In United States	11.5	7.1	n.a.	3.7	2.6	6.3	n.a.
A. Short-term assets 1/	0.3	0.9	0.4	1.7	-1.2	0.5	1.3
B. Other deposits and securities	7.5	4.8	0.6	1.2	2.3	3.4	0.3
C. Other investments 2/	3.7	1.4	n.a.	0.8	1.5	2.3	n.a.
II. In United Kingdom	-1.1	-0.8	n.a.	0.2	0.4	0.6	n.a.
A. Liquid sterling assets	-2.4	-1.6	n.a.	0.1	0.1	0.2	n.a.
B. Other loans and investments	1.3	0.8	n.a.	0.1	0.3	0.4	n.a.
III. In Euro-currency Markets	12.6	3.7	n.a.	3.5	2.0	5.5	n.a.
A. United Kingdom	5.6	2.2	n.a.	2.0	0.5	2.5	n.a.
B. Other centers 3/	7.0	1.5	n.a.	1.5	1.5	3.0	n.a.
IV. International and Regional Institutions	1.8	1.8	0	0.2	0.2	0.5	n.a.
A. IBRD Bonds	0.5	0.4	0	*/	*/	0.1	*/
B. IMF Oil Facility	1.1	1.2	0	*/	*/	*/	0
C. Other	0.2	0.2	0	0.2	0.2	0.4	n.a.
V. Other Investments	5.4	2.9	n.a.	4.2	8.3	12.5	n.a.
VI. Total = Investible Surplus	30.2	14.7	n.a.	11.8	13.5	25.3	n.a.
VII. Net Credits to Oil Companies	7.4	3.3	n.a.	0.4	-0.7	-0.3	n.a.
VIII. OPEC Grant Aid	2.2	1.2	n.a.	0.8	0.2	1.0	n.a.
IX. Surplus on Goods, Services, and Private Transfers	39.8	19.2	n.a.	13.0	13.0	26.0	n.a.

1/ Treasury bills, bank deposits and CD's, repurchase agreements.
2/ Direct investment, import prepayments, debt repayments, real estate, miscellaneous.
3/ Including domestic currency deposits outside the U.S. and U.K.
*/ Less than $50 million.

OPEC holdings in the United Kingdom (excluding Euro-currency deposits) rose $0.6 billion in the first half, reversing some of the net liquidation in 1976. This year's total included about $150 million of purchases of U.K. Government foreign-currency bonds by official OPEC holders of sterling balances. Despite these purchases, total OPEC sterling balances rose because of increased acquisitions by nonofficial holders.

The Euro-currency market continued to attract sizable amounts of OPEC funds in the first half of 1977. Holdings of these deposits (including domestic-currency deposits outside the U.S. and the U.K.) rose $5.5 billion, slightly under the average half-yearly rate of accumulation in 1976.

The OPEC countries have continued this year to use very little of their surplus for resource transfers to international and regional institutions. This will become a more important use when the Witteveen Facility becomes operative.

Some individual OPEC countries have been borrowers in international capital markets to cover deficits or to build up reserves intended to be spent late. The main borrowers have been Abu Dhabi, Algeria, Indonesia, Iran and Venezuela. Gross borrowings arranged in international capital markets by OPEC countries amounted to $4.3 billion in 1976 and $2.2 billion in the first half of 1977. (Information on actual drawdowns is unavailable.) Data for the third quarter of 1977 will include loans of $1 billion to Nigeria and $350 million to Qatar. To allow for foreign borrowing in the table on the disposition of the surplus, the increases in identified assets can be considered as including some (relatively small) investment of borrowed funds, and the increases in unidentified assets are net of increases in external liabilities.

U.S. International Transactions. In July, merchandise trade registered a deficit of $26.2 billion at an annual rate, down sharply from the recond June deficit and down $3-1/2 billion from the rate of deficit in the first half of this year. The improvement was probably temporary, however, with petroleum imports down from a June peak, and exports inflated by a bunching of documents covering gold shipments.

Private capital flows in July, for which we have data, resulted in a net capital inflow of about $1.9 billion, a shift from a June net outflow of $2.5 billion. Flows of official capital included OPEC net investments in the United States of about $1.4 billion in July, well above the monthly average of about $0.6 billion through the first half of this year (see summary table below), and a further large increase in foreign official assets in the United States resulting mainly from intervention purchases of dollars.

U.S. International Transactions: Summary
(in billions of dollars, (-) = outflows)

		1976	1977					
		Year	1Q	2Q	Apr.	May	June	July
1.	Trade balance 1/	-9.2	-7.0	-7.9	-2.9	-1.7	-3.4	-2.2
2.	(annaul rate)		(-27.9)	(-31.7)	(-34.7)	(-19.9)	(-40.5)	(-26.2)
3.	Private capital trans., net	-14.8	-0.6	-1.3	1.5	-0.3	-2.5	1.9
4.	OPEC net investments	6.8	2.7	0.9	1.3	0.5	-0.9	1.4
5.	Other foreign official assets	6.3	2.3	5.7	1.7	1.3	2.6	2.4
6.	U.S. reserve assets	-2.5	-0.4	*	0.3	-0.3	*	0.3
7.	All other 2/	13.4	3.0	2.6	-1.9	0.5	4.1	-3.8
8.	(seasonal adjustment) 3/	--	0.4	0.4	0.7	0.2	-0.5	0
9.	(reporting bias) 4/	--	--	--	-1.0[e]	1.0[e]	--	-2.0[e]
10.	(other)	13.4	2.6	2.2	-1.6	-0.7	4.6	-1.8

1/ Seasonally adjusted.
2/ Includes service transactions, unilateral transfers, U.S. Government capital flows, direct investments, nonbank transactions, and statistical discrepancy.
3/ Correction for incomplete seasonal adjustment.
4/ Reporting bias in bank-reported data associated with weekend transactions (see pages IV 10-11 in the June 1976 green book)
*/ Less than $50 million.
e/ Estimated
Details may not add to totals because of rounding.

In July, exports increased nearly 4 per cent over the June rate to an annual rate of $124.7 billion in spite of a slight decline in agricultural exports. Large declines in the volume and value of corn and cotton exports were nearly offset by increased exports of wheat and rice. Soybean and cotton export unit values fell in July: soybean export unit values were down $1.31 per bushel, or 14 per cent, and cotton export unit values fell $13.61 per bale, about 4 per cent, from their June levels. These decreases follow earlier declines in the market prices of these commodities reflecting expectations of bumper crops for both.

The value of nonagricultural exports rose about 5 per cent in July from both the June and second-quarter rates. A bunching of export documents related to gold sales by the IMF reportedly occurred in July

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

	1976	1976				1977			
	Year	1Q	2Q	3Q	4Q	1Q	2Q	June	July
EXPORTS	114.7	108.0	113.5	118.4	118.8	117.9	121.6	120.0	124.7
Agric.	23.4	21.6	23.4	25.0	23.6	24.5	26.6	25.5	25.4
Nonagric.	91.3	86.4	90.1	93.5	95.3	93.4	94.9	94.5	99.3
IMPORTS	123.9	113.3	119.7	129.5	133.2	145.8	153.3	160.5	150.9
Petroleum	34.6	30.3	33.0	37.6	37.4	44.3	47.7	51.0	43.2
Nonpetrol.	89.3	83.0	86.6	91.9	95.8	101.5	105.5	109.6	107.7
BALANCE	-9.2	-5.3	-6.1	-11.1	-14.3	-27.9	-31.7	-40.5	-26.2

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

and accounted for most of this increase. It is likely that the bulge will be reallocated from July to earlier months.

Increased exports of industrial supplies and aircraft were almost offset by small declines in most other commodity groups. The value of machinery exports remained at about the rate in the first half of 1977, mirroring the relatively slow rate of economic advance abroad.

Imports in July were $150.9 billion at an annual rate, down 6 per cent from the June rate, mainly reflecting a sharp drop in petroleum imports. The volume of petroleum imports fell to 8.9 million barrels per day (mbd) in July from 10.5 mbd in June as the deliveries of oil ordered in anticipation of the July 1 Saudi price rise tapered off. The average price of a barrel of imported oil fell to $13.29 in July from $13.36 in June amid reports of price discounting by some oil exporters.

Petroleum and Products
(millions of barrels per day unless otherwise indicated)

				1977				
	1974	1975	1976	1Q	2Q	June	July	August
Imports	6.6	6.5	7.8	9.3	9.8	10.5	8.9	n.a.
U.S. Production	11.0	10.5	10.3	10.2	10.1 1/	n.a.	n.a.	n.a.
U.S. Stocks 2/	893.9	941.6	948.0	915.5	1005.8	1005.8	1028.6	1045.1

1/ Forecast n.a. = not available
2/ Millions of barrels, end of period. After 1975 these data include crude oil in pipelines between ports and refineries, raising the stocks level by about 13-18 million barrels.
3/ August stocks include API estimates of about 11 million barrels for the Alaskan pipeline and terminal.

The value of nonpetroleum imports declined about 2 per cent in July from the record June rate as import volumes fell somewhat and import prices remained flat. A sharp drop of about one-third in the value of coffee imports, all in volume, and a decline in consumer-goods arrivals were nearly offset by a rise in the value of foreign-car and capital-goods imports. U.S. coffee purchases have reportedly fallen substantially over the last few months in response to the rapid rise in coffee prices. The unit value of coffee imports, which lags wholesale prices, has risen nearly 125 per cent since July 1976 to $2.45 per pound in July of this year. The wholesale price of green coffee, at $2.00 a pound, has fallen $1.35 from its April 1977 peak. The volume of capital-goods imports remained flat in July while their unit value rose about 4 per cent over the June level. The increase in the value of foreign-car imports in July stems entirely from a volume rise of over 6 per cent from both the June and the second-quarter levels. In spite of the increase in imports, near record foreign-car sales in July led to the sixth consecutive decline in foreign-car inventories.

Foreign participation in selected U.S. credit markets. In July, U.S. banking offices reported a net inflow of funds from foreigners of $4.8 billion. After adjustment for reporting bias associated with weekend transactions, the net inflow of funds is reduced to about $2.8 billion (see June 1976 green book for a discussion of this reporting bias). U.S. - based banks reduced their net advances to their foreign branches apparently in response to relatively easier conditions in offshore dollar markets, and foreign official institutions placed $1.8 billion with U.S. banks.

The World Bank reduced its U.S. holdings by about $2 billion in July, including $1.6 billion in deposits at U.S. banks. In addition, the Bank sold $750 million of new securities in the U.S. market. These transactions do not reflect a change in the relative attractiveness of the Eurodollar market, rather they are the implementation of a new policy aimed at improving the yield on the World Bank's dollar holdings.

U.S. Bank-reported Capital Flows
(billions of dollars: increases in assets, -)

	1976	1977			
	Year	1Q	2Q	June	July
Change in net foreign positions of U.S. banking offices, net	-9.1	-2.3	1.4	-1.8	4.8
Net change through interbank transactions (including own foreign affiliates)	-7.8	-0.5	-1.0	-1.6	4.9
Loans to non-bank foreigners	-3.1	0.7	*	-0.1	*
Acceptances and collections 1/	-1.8	-1.2	-0.5	-0.2	*
Liabilities to private nonbank foreigners	2.7	-0.8	2.5	-0.1	-1.8
of which: international and regional organizations	*	-1.2	1.7	-0.4	-1.6
Liabilities to foreign official institutions (excludes Treasury issues held in custody)	1.0	-0.4	0.4	0.1	1.8

1/ Includes minor foreign currency claims.
*/ Less than $50 million.
Details may not add to totals because of rounding.

Foreign purchases of U.S. Treasury and agency securities totalled about $1.8 billion in July, of which $1.1 billion were purchases of bonds and notes by the United Kingdom. These purchases lengthened the average maturity of the Bank of England holdings in the United States, In the first seven months of 1977, about 60 per cent of the increase in publicly held Treasury debt was purchased by foreigners (mainly foreign official institutions), compared with 10 per cent in the year 1976. These purchases of Treasury securities primarily reflect the result of exchange market intervention.

Private and official foreign purchases of U.S. corporate securities (stocks and bonds) totalled $400 million in July, about equally divided between stock and bond purchases. OPEC stock purchases have remained relatively steady over the past year and a half with monthly purchases of $100 - $150 million.

New issues of foreign bonds and other securities in the United States totalled $1.2 billion in July, including a $750 million issue by the World Bank. The United Kingdom sold $200 million of British Petroleum shares in the U.S. market in July. For the full third-quarter, new foreign bond flotationsare expected to be $2.2 billion, a rate above the quarterly rate of $1.6 billion for the first half of 1977 but slightly below the quarterly average for 1976. The third-quarter figure includes $1 billion of Canadian bond flotations; a $200 million private placement of Hydro Quebec, reportedly less than originally sought, and the first since November 1976, is included in this third-quarter estimate.

Other capital transactions during July included a $263 million decline in U.S. reserve assets. This decrease reflected repayment of IMF credits by Italy and India (see line 6 in summary table).

Trade and Current Account Developments in the Major Foreign Industrial Countries. Reflecting the weak pace of economic recovery abroad over the past year, there has been a marked slowing in the rate of growth of trade in the major foreign industrial countries from the very rapid rates recorded at the end of 1975 and the beginning of 1976. In the second half of 1976 export growth of these countries slowed more than imports -- which were sustained by oil stockpiling and increased agricultural imports. As a result, trade surpluses were reduced and deficits enlarged. In the first half of 1977 this tendency was reversed: export growth exceeded import growth in all the major foreign countries. The trade surplus of the six major countries taken together grew from a level of $5.7 billion (annual rate) in the second half of 1976 to $22.1 billion in the first half of this year. (See Table I).

Except for Canada, current-account deficits also fell and surpluses grew in the first half of 1977 in the major foreign countries. The fall in the current-account deficits of France, Italy, and the United Kingdom represents appropriate adjustment -- given the substantial deficit that these countries have incurred in recent years. The rise in the German surplus, and the much larger increase in the Japanese surplus, however, tend to widen international disparities in payments positions and create adjustment problems. The smaller OECD countries, in particular, are continuing to incur substantial current-account deficits despite low rates of economic growth, and a number of them -- in order to counterbalance the weakness of their exports -- are facing the need to further restrain imports.

Table I. Merchandise Trade and Current Accounts of Major Industrial Countries
(in billions of U.S. dollars at seasonally adjusted annual rates)

				1976				1977		
	1974	1975	1976	I	II	III	IV	I	II	July
Canada Trade Balance	1.7	-0.6	1.2	-0.5	1.0	3.2	0.9	3.2	1.2	3.6
Canada Current Account	-1.7	-4.7	-4.2	-5.0	-4.6	-2.9	-4.4	-3.3	n.a.	
France Trade Balance	-3.4	1.5	-4.2	-1.9	-1.0	-6.1	-7.9	-4.1	-2.5	-2.4
France Current Account	-6.0	0.0	-5.8	-4.4	-2.6	-8.8	-7.4	-5.4	-3.0	
Germany Trade Balance	19.7	15.3	13.6	13.8	12.7	13.9	13.8	15.3	17.0	
Germany Current Account	9.7	3.9	3.2	5.2	3.6	1.8	2.0	2.8	6.3	
Italy Trade Balance	-10.8	-3.4	-6.5	-6.2	-7.3	-4.9	-7.7	-5.5	-3.3	-1.7
Italy Current Account	-8.0	-0.6	-2.9	-5.9	-5.6	3.3	-3.3	-3.7	n.a.	
Japan Trade Balance	1.4	5.0	9.9	10.4	11.6	11.9	8.9	16.8	17.7	20.4
Japan Current Account	-5.0	-0.6	3.5	4.1	5.8	1.1	3.0	9.3	11.0	14.3
U.K. Trade Balance	-12.2	-7.1	-6.5	-4.5	-7.0	-8.1	-6.5	-6.6	-4.9	-4.8
U.K. Current Account	-7.9	-3.7	-2.6	-1.0	-2.9	-3.8	-2.7	-2.8	-1.6	-0.7
Trade Balance for Above Six Countries:	-3.6	10.7	7.5	11.1	10.0	9.9	1.5	19.1	25.2	
U.S. Trade Balance	-5.3	9.0	-9.2	-5.3	-6.1	-11.1	-14.3	-27.9	-31.7	-26.4
U.S. Current Account	-2.9	11.7	-0.9	1.8	2.2	-1.5	-5.9	-17.1	n.a.	

Data converted to dollars on the basis of average exchange rates for each period as published in Federal Reserve Bulletin. French, German and Italian trade on customs basis, others on a balance of payments basis. Imports f.o.b., except c.i.f. for Germany and Italy. Current Account is defined as balance on goods, services and private and official transfers. Details may not add to totals due to rounding.

Reflecting the weakening in the expansion of economic activity abroad in recent quarters, import volumes have been growing very slowly this year -- and have registered declines in France and Italy. (See Table II). Export volumes have grown rapidly in Canada and Japan -- where the relatively rapid growth of the U.S. market has played a significant role. Export volume has also been growing quite strongly in Britain but has been moderate elsewhere.

In order to place recent trade developments in perspective, Table III presents since 1973, for each major foreign country, the ratio of export volumes to import volumes in index form (1970=100) and also, on the same base, the ratio of export unit values to import unit values (the terms of trade). Changes in trade balances are, approximately, decomposable into changes in these two components.

The oil price rise (as well as the 1973 commodity price upsurge) sharply reduced the terms of trade that faced all the major foreign countries except Canada in 1974. There was, however, considerable variation in the impact of the oil price rise on different countries on account of differences in the structure of their trade and especially their degree of dependency on oil imports. A relatively larger burden of adjustment fell on Japan and Italy than on Germany. In 1975, the recession-induced shift toward surplus on trade accounts that occurred in Italy, France, and the U.K. reflected price and volume effects about equally. In Japan the shift towards surplus was entirely the result of the rapid increase of export volumes relative to import volumes. In Germany, on the other hand, it was the rising

Table II. Trade Volume Indices for Major Foreign Industrial Countries
(Seasonally Adjusted)

	Levels 1970=100					Rates of Change(s.a.a.r.)From Preceding Half-Year		
						1976		1977
	1973	1974	1975	1976	Latest	H1	H2	H1
Canada								
Export Volume	127.3	122.7	112.9	126.1	133.4(June)	22.9	5.5	15.9
Import Volume	149.3	164.5	155.9	166.6	170.0	14.7	0.6	5.8
France								
Export Volume	136.5	149.5	143.3	156.6	162.5(May)	16.4	5.5	6.8e(based on data through May)
Import Volume	139.4	145.4	133.9	164.4	159.2	31.6	16.4	-7.1e
Germany								
Export Volume	133.3	150.5	134.6	151.5	164.3(June)	18.7	9.0	3.8
Import Volume	129.2	127.9	130.8	151.0	159.4	21.4	10.3	2.6
Italy								
Export Volume	122.9	131.8	135.0	151.3	162.1(April)	11.5	12.3	3.4e(based on data through April)
Import Volume	123.9	117.2	103.3	121.8	125.4	21.7	7.1	-4.0e
Japan								
Export Volume	134.9	156.5	159.3	194.3	205.8(June)	45.1	-0.6	8.9
Import Volume	144.5	141.9	122.2	136.0	138.1	17.1	7.9	5.7
United Kingdom								
Export Volume	122.2	131.2	125.6	135.9	152.5(June)	14.5	4.8	10.9
Import Volume	133.8	136.2	126.4	134.2	151.6	3.9	12.0	7.8
Weighted average percentage change from previous period for above countries								
Export Volume		9.2	-4.7	12.7		21.6	6.1	8.3
Import Volume		1.1	-6.1	13.7		18.7	9.6	2.2

Table III. Terms of Trade and Relative Trade Volume Indices for Major Foreign Industrial Countries.[1] (1970=100)

	1973	1974	1975	1976	1976 1st. Half	1976 2nd Half	1977 Q1	1977 Latest	
Canada									
Terms of Trade	105.6	113.5	108.5	110.6	110.2	110.9	107.4	105.4	(June)
Relative Trade Volume	85.3	74.6	72.4	75.7	74.8	77.4	81.8	79.1	
France									
Terms of Trade	104.9	90.0	96.8	95.1	96.4	94.1	93.0	92.1	(May)
Relative Trade Volume	97.9	102.8	107.0	95.3	97.8	93.0	97.3	102.1	
Germany									
Terms of Trade	104.0	95.4	102.4	109.8	100.5	101.2	101.5	100.4	(June)
Relative Trade Volume	103.2	117.7	102.9	100.3	100.7	100.0	99.0	103.1	
Italy									
Terms of Trade	91.2	74.7	79.7	76.7	76.8	76.6	78.0	78.7	(April)
Relative Trade Volume	99.2	112.5	130.7	124.2	122.6	125.6	130.6	129.3	
Japan									
Terms of Trade	100.9	78.8	72.6	71.0	69.2	73.0	74.7	74.7	(May)
Relative Trade Volume	93.4	110.3	130.1	142.8	147.1	138.0	139.3	144.3	
U.K.									
Terms of Trade	90.0	75.0	80.1	80.4	80.9	79.9	80.6	80.5	(June)
Relative Trade Volume	91.3	96.3	99.7	101.3	103.0	99.6	98.8	100.6	

1/ The terms of trade are defined as the ratio of export unit value to import unit value (not seasonally adjusted). Relative Trade Volume is defined as the ratio of export volume to import volume (seasonally adjusted).

terms of trade that moderated the fall in the trade surplus in the face of a more rapid growth of imports than exports.

Since 1975, terms-of-trade shifts have been relatively small and changes in trade balances primarily have reflected changes in volumes; the major exceptions are the fall in the French terms of trade and the rise in Japan's. The sharp increase in the Japanese trade balance in 1977 reflects the simultaneous rise in its terms of trade and in export volume relative to import volume. The reduction of the French deficit despite the falling terms of trade is explained primarily by the sharp fall in import volumes.

In Canada export growth has been very rapid in the first half of this year, and imports have also grown rapidly in relation to economic activity -- in part reflecting imports of automobile parts and the re-export of automobiles to the U.S. market. The substantial trade surpluses achieved have not yielded a decline in the large current-account deficit because of large rises in interest payments on past borrowing and tourist expenditures.

For Japan, import growth has been somewhat slow in relation to the rate of growth of economic activity, and export growth has been very rapid -- reflecting increased sales not only to the U.S. market but to East Asia and the OPEC countries as well. The current account surplus has, accordingly, grown rapidly and may reach a level of $10 billion for the year as a whole. The recently concluded Orderly Marketing Agreement for television exports with the U.S., and automobile export restraints agreed upon with the United Kingdom may begin to slow the rate of export growth in coming months, and the latest Japanese reflationary package should lead to more rapid import growth. Nevertheless, the impact of these factors is not expected to result in any rapid or substantial reduction in the surplus.

In Germany, imports have been closely linked to economic activity and the rate of import growth has slowed substantially since the second half of 1976, when imports of oil in anticipation of the oil-price increase contributed to rapid import growth. Exports have also been sluggish, reflecting weak demand abroad and some loss of competitiveness resulting from the appreciation of the mark relative to a number of weaker currencies. The trade surplus has increased sharply in the first half of 1977, both because of a slightly higher growth of exports than imports and because of the higher initial level of exports. Increases in tourist expenditures abroad and increased payments of dividends by German firms to foreign stockholders have to some extent moderated the rise in the current-account surplus and it is expected that some further moderation will occur in the second half of this year as imports revive in response to somewhat faster projected rates of economic growth.

The French current-account deficit has fallen sharply from the very high levels reached in the second half of last year, primarily because of a sharp fall in import volumes and a substantial increase in exports. Oil imports in particular have moderated since last year, in part because of higher gasoline taxes imposed by the government last fall, and in part because abundant rainfall this spring has led to increased hydro-electric power production. Prospects for further movement toward balance on current account are mixed: the agricultural trade surplus will increase as the effects of last year's drought are reversed, but imports may increase towards the end of this year in response to a resumption of moderate growth.

The Italian current account is expected to be in near balance for 1977 as a whole. Export growth has been strong in recent months -- reflecting gains in competitiveness as a result of last year's lira devaluation; imports have been weak, in line with weak levels of economic activity; and tourist receipts in the first half of this year have been very strong.

The United Kingdom also is expected to move towards balance on the current account in the course of 1977 and, as a result of North Sea Oil, to achieve surpluses beginning next year. Both exports and imports have been growing quite rapidly in relation to the sluggish rate of economic activity. Automobile imports have been particularly strong in recent months due in part to labor problems in the British automotive industry. The surplus on services has been smaller than originally thought despite large receipts from tourism and the export of financial services, because of substantially increased outflows of interest and dividend payments.

The shift toward smaller current deficit or larger surpluses in the major foreign countries in 1977 is not matched by similar movements in the smaller industrial countries, where generally weak exports account for stable or widening trade deficits despite the importlimiting impact of reduced domestic growth in activity. In Switzerland and especially the Netherlands current-account surpluses are falling as the result of widening trade deficits. There is little change in the near-balance position on current account of Belgium. In Sweden, Denmark, and Norway, current-account deficits widened sharply in 1976 and remain stubbornly large. In order to improve its export competitiveness, Sweden recently devalued its currency. Denmark and Norway also devalued in response to the Swedish action. Sweden and Denmark have also adopted policies designed to reduce consumption and hence imports. It is expected that, due to North Sea Oil, the Norwegian current-account deficit will begin to fall later this year and shift into surplus in 1979.