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CONFIDENTIAL (FR)

August 9, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

	<u>Section</u>	<u>Page</u>
DOMESTIC NONFINANCIAL DEVELOPMENTS	II	
Employment and production.....		1
Consumer sector activity.....		4
Residential construction.....		7
Business investment.....		9
Government sector activity.....		10
Prices.....		14
Compensation and productivity.....		16
TABLES:		
Average monthly changes in employment.....		2
Selected unemployment rates.....		2
Selected capacity utilization rates for U.S. industry.....		5
Personal income.....		8
Business inventories.....		12
Inventory ratios.....		12
Contracts and orders for plant and equipment.....		13
Recent changes in producer prices.....		15
Recent changes in consumer prices.....		15
Hourly earnings index.....		17
CHARTS:		
Auto sales.....		6
Dealers' inventories of autos.....		6
New private housing starts.....		11
Productivity and costs--nonfarm business sector.....		18
 DOMESTIC FINANCIAL DEVELOPMENTS	 III	
Monetary aggregates and bank credit.....		3
Business credit.....		9
Government finance.....		14
Mortgage markets.....		17
Consumer finances.....		21
TABLES:		
Selected financial market quotations.....		2
Monetary aggregates.....		4
Commercial bank credit.....		6
Security offerings.....		12
Interest rates and supply of mortgage funds at selected S&Ls.....		16

TABLE OF CONTENTS (cont.)

	<u>Section</u>	<u>Page</u>
DOMESTIC FINANCIAL DEVELOPMENTS (cont.)	III	
TABLES:		
Net change in mortgage debt outstanding.....		18
Consumer instalment credit.....		20
CHARTS:		
Ratio of loans to deposits subject to regulatory ceilings.....		8
Business loan commitments and commitment utilization at selected large banks.....		10
INTERNATIONAL DEVELOPMENTS	IV	
Foreign exchange markets.....		1
International capital markets.....		5
U.S. international transactions.....		9
Capital transactions.....		9
U.S. merchandise trade.....		11
Agricultural exports.....		13
Nonagricultural exports.....		13
Oil imports.....		13
Non-oil imports.....		14
Foreign economic developments.....		16
Notes on individual countries.....		19
TABLES:		
Borrowings in international capital markets.....		6
U.S. international transactions summary.....		10
U.S. merchandise trade, international accounts basis.....		11
Real GNP and industrial production in major industrial countries.....		23
Consumer and wholesale prices in major industrial countries.....		24
Trade and current-account balances of major industrial countries.....		25
CHARTS:		
Weighted average exchange value of U.S. dollar.....		2
U.S. merchandise trade.....		12
Industrial production for major foreign countries.....		18
APPENDIX: June 1978 Revision of National Income and Product Accounts		

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	July	8-5-78	100.6	.5	3.3	3.4
Unemployment rate (%) ^{1/}	July	8-5-78	6.2	5.7	6.0	6.9
Insured unemployment rate (%) ^{1/}	July	8-5-78	3.4	3.1	3.2	3.9
Nonfarm employment, payroll (mil.)	July	8-5-78	86.0	3.7	3.8	4.4
Manufacturing	July	8-5-78	20.3	1.5	1.8	3.3
Nonmanufacturing	July	8-5-78	65.7	4.4	4.4	4.8
Private nonfarm:						
Average weekly hours (hr.) ^{1/}	July	8-5-78	36.1	36.1	36.3	36.1
Hourly earnings (\$) ^{1/}	July	8-5-78	5.73	5.68	5.62	5.27
Manufacturing:						
Average weekly hours (hr.) ^{1/}	July	8-5-78	40.4	40.4	40.6	40.2
Unit labor cost (1967=100)	June	7-31-78	165.8	2.2	-2.4	7.0
Industrial production (1967=100)	June	7-17-78	144.3	4.2	9.7	4.7
Consumer goods	June	7-17-78	147.5	3.3	4.4	2.6
Business equipment	June	7-17-78	161.4	5.2	10.2	7.5
Defense & space equipment	June	7-17-78	83.4	5.8	7.3	3.9
Materials	June	7-17-78	145.3	5.0	15.4	4.8
Consumer prices (1967=100)	June	7-28-78	195.4	10.5	10.9	7.5
Food	June	7-28-78	214.0	15.9	19.0	10.4
Commodities except food	June	7-28-78	173.9	7.6	7.0	5.3
Services	June	7-28-78	210.5	10.4	11.3	8.3
Producer prices (1967=100)	June	7-7-78	209.1	8.7	9.8	7.7
Industrial commodities	June	7-7-78	208.4	8.1	8.4	7.1
Farm products & foods & feeds	June	7-7-78	209.3	11.6	14.5	9.7
Personal income (\$ bil.) ^{2/}	June	7-19-78	1695.8	10.3	12.0	11.8
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	June	8-2-78	68.8	-1.8	-.4	16.3
Capital goods industries	June	8-2-78	21.6	-2.7	-1.7	19.5
Nondefense	June	8-2-78	17.7	-2.4	1.0	14.2
Defense	June	8-2-78	3.9	-3.7	-12.5	51.6
Inventories to sales ratio: ^{1/}						
Manufacturing and trade, total	May	8-2-78	1.41	1.40	1.43	1.46
Manufacturing	June	8-2-78	1.51	1.51	1.52	1.59
Trade	May	8-2-78	1.30	1.31	1.32	1.31
Ratio: Mfrs.' durable goods inventories to unfilled orders ^{1/}	June	8-2-78	.591	.594	.605	.645
Retail sales, total (\$ bil.)	June	7-11-78	64.0	.1	2.0	10.6
GAP ^{3/}	June	7-11-78	14.2	.3	4.5	13.3
Auto sales, total (mil. units.) ^{2/}	July	8-8-78	10.9	-8.3	-10.0	.9
Domestic models	July	8-8-78	9.0	-8.7	-10.3	3.4
Foreign models	July	8-8-78	1.9	-6.6	-8.4	-9.5
Housing starts, private (thous.) ^{2/}	June	7-19-78	2,099	.9	2.5	8.7
Leading indicators (1967=100)	June	7-31-78	136.3	.4	1.3	5.1

^{1/} Actual data used in lieu of per cent changes for earlier periods.

^{2/} At annual rate.

^{3/} Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity has continued to expand at a moderate pace since the second-quarter surge in growth. Employment and industrial production rose further in July, and consumer spending on nonauto goods picked up. In addition, housing starts were again at an advanced level in June and spending for private nonresidential construction increased markedly. Overall prices have risen rapidly so far this year.

Employment and Production

Nonfarm payroll employment, as measured by the survey of establishments, rose 265,000 in July--about two-thirds of the average monthly increase during the first half of the year. Much of the gain was in trade and service industries. Employment in contract construction registered another large increase in July to a level half a million above six months earlier. In the manufacturing sector, employment rose by 25,000 for the second successive month--with recent gains concentrated in machinery industries--while the factory workweek remained at 40.4 hours.

The household survey, on the other hand, indicated a decline of more than 300,000 in nonagricultural employment along with a large decrease in farm jobs. The drop in total employment followed an exceptionally large increase of 700,000 in June. Monthly changes in employment, as measured by the household and establishment surveys, have sometimes diverged and the disparity in recent months is not

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

	Dec. 76 to Dec. 77	Dec. 77 to June 78	May 78 to June 78	June 78 to July 78
<u>Nonfarm payroll employment 1/</u>	255	390	301	264
Manufacturing	63	69	25	25
Durable	49	50	19	45
Nondurable	14	19	6	-20
Construction	29	68	89	51
Trade	57	73	80	62
Services and finance	78	80	70	130
State and local government	28	45	-1	19
Private nonfarm production workers	173	263	176	163
<u>Total employment 2/</u>	347	368	707	-394
Nonagricultural	340	343	469	-308

1/ Survey of establishments.

2/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent; based on seasonally adjusted data)

	1973	1977		1978			
	Annual Average	QIII	QIV	QI	QII	June	July
Total, 16 years and older	4.9	6.9	6.6	6.2	5.9	5.7	6.2
Teenagers	14.5	17.6	16.7	16.9	15.9	14.2	16.3
20-24 years old	7.8	10.8	10.4	10.3	9.4	9.2	9.9
Men, 25 years and older	2.5	4.0	3.9	3.5	3.3	3.1	3.3
Women, 25 years and older	4.0	6.1	5.8	4.9	5.1	5.2	5.6
White	4.3	6.1	5.8	5.4	5.1	4.9	5.3
Black and other	8.9	13.6	13.3	12.3	12.0	11.9	12.5
Fulltime workers	4.3	6.5	6.2	5.7	5.4	5.2	5.7
White collar	2.9	4.2	4.1	3.5	3.6	3.5	3.8
Blue collar	5.3	8.1	7.6	7.1	6.5	6.5	6.9
Craft and kindred	3.7	5.4	5.3	5.1	4.3	4.2	4.0
Operatives, ex. transport	6.1	9.9	9.2	8.0	8.0	7.9	8.5

unprecedented. When viewed over a longer time span, the two surveys generally have shown similar changes. Over the last twelve months for example, both measures show nonfarm employment rising about 3-1/2 million. Reflecting the sharp movement reported for total employment, the unemployment rate moved up 0.5 percentage point to 6.2 per cent in July, after falling 0.4 percentage point in the preceding month. According to the Bureau of Labor Statistics, imperfect seasonal adjustment factors appear to have exaggerated the improvement in June and, consequently, the deterioration in July.

Reflecting the continued gains in payroll employment and other data, industrial production is tentatively estimated to have increased about one-half per cent in July, up from the June rise initially estimated at 0.3 per cent. Since November--prior to the beginning of the coal strike--monthly increases in the industrial production index averaged close to 0.5 per cent, compared with an average gain of 0.4 per cent in the preceding 12 months. Increases in July were widespread among most products and materials. Output of durable consumer goods rose further reflecting gains in auto and home goods, such as appliances and furniture. Auto assemblies--at a 9.4 million unit annual rate in July--were up fractionally from the June rate; truck production was about unchanged. Business equipment production continued to show strength, and raw steel output increased again in July.

Capacity utilization in the manufacturing sector as a whole apparently edged up to about 84 per cent in July, approximately 1-1/2 percentage points above the average rate since 1967. In the materials-producing industries, operating rates are close to the long-run average but remain far below their 1973 highs. Utilization rates in the steel industry have risen sharply since the low levels of last winter, but industry sources do not expect capacity pressures this year.

Consumer Sector Activity

Weekly data suggest retail sales excluding autos and nonconsumer items increased more than one per cent in July, after showing little change in June. (Advance monthly data for July should be available for the Greenbook supplement.) Substantial gains were indicated at both durable and nondurable stores. However, total auto sales declined from the near-record 12.1 million unit annual rate of the second quarter to a 10.9 million unit annual rate in July as sales of domestic units fell 860,000 units to a 9.0 million annual pace. Sales declined late in the month, following the end of General Motors' sales incentive contests.

Since February, more than half of the rise in total retail sales has been attributable to the surge in durable goods spending--a phenomena consistent with recent trends in consumer attitudes as surveyed by the Michigan Research Center. In July, the index of sentiment rose, returning to the April-May level, and consumers continued

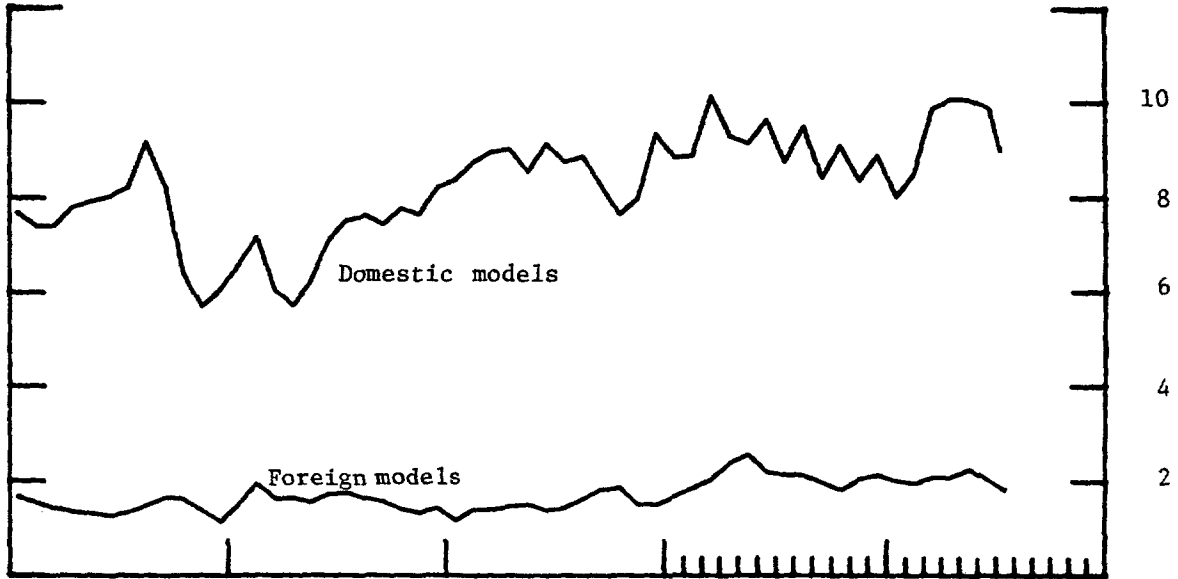
SELECTED CAPACITY UTILIZATION RATES FOR U.S. INDUSTRY
(Per cent)

	1967-77 Average	1973 High	June 78 <u>1/</u>
Manufacturing	82.6	88.0	83.9
Primary	85.0	93.6	86.2
Advanced	81.3	85.4	82.6
Materials, total	85.1	93.1	84.4 <u>2/</u>
Durable goods materials	81.8	92.5	82.5
Basic iron and steel	87.9	105.2	88.6
Aluminum	92.1	97.9	88.0
Nondurable goods materials	87.6	94.6	87.9
Textile materials	86.5	94.4	80.5
Paper materials	93.0	100.5	89.9
Chemical materials	85.4	93.8	86.9
Petroleum refining	91.5	95.3	89.5
Major materials	88.4	95.9	86.6

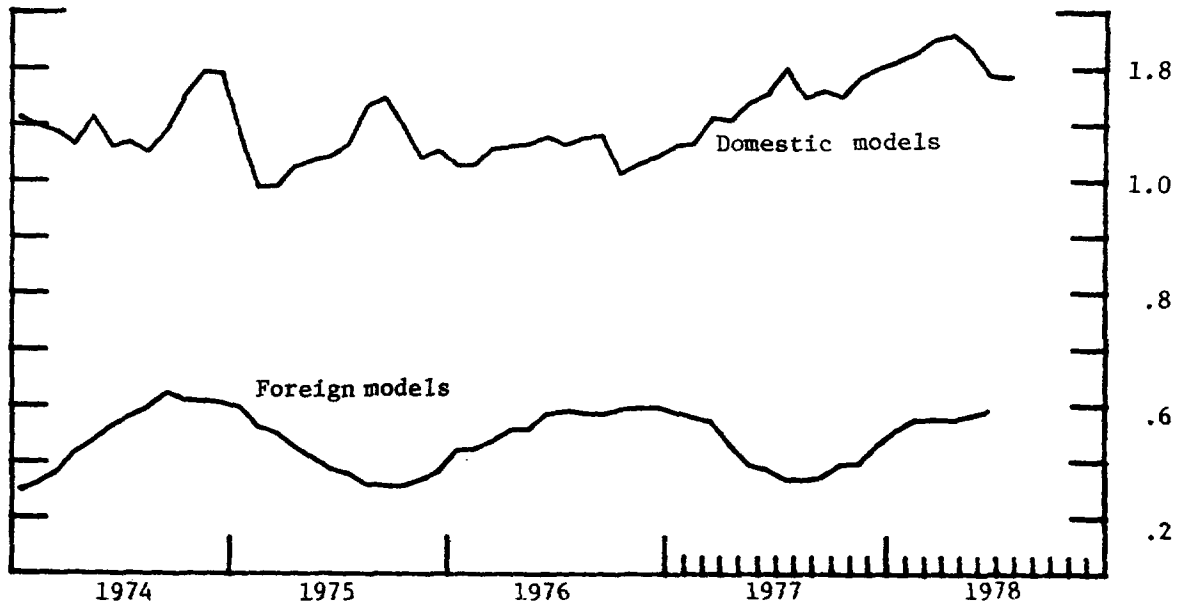
1/ Estimate

2/ A revision later this year is expected to raise this rate about one percentage point.

II - 6
AUTO SALES
(Millions of units, S.A.A.R.)



DEALERS' INVENTORIES OF AUTOS
(Millions of units, end of month, seasonally adjusted)



to evaluate buying conditions as favorable for large household durables, cars, and houses. A record proportion of survey respondents--more than half--reported that anticipated price increases were a major reason that the present was a good time to buy durable goods.

Growth of personal income picked up somewhat in June, increasing at a 10-1/2 per cent annual rate after a downward-revised advance of only 8 per cent in May. The more moderate rise in nominal income during recent months has been due to a deceleration of wage and salary growth. Rising farm prices, however, contributed to a sizable monthly increase in the income of farm proprietors for the third consecutive month. However, real personal income declined in both May and June, as consumer prices continued to rise rapidly. Incoming data on hours and earnings suggest a further increase of wages and salaries in July; in addition, total personal income growth was boosted by the annual cost-of-living increase for Social Security recipients.

Residential Construction

Total private housing starts were at a 2.10 million unit annual rate in June, about the same level as the preceding three months and only slightly below the advanced rate of the fourth quarter of last year. In the single-family sector, starts were down slightly in June to a 1.43 million unit annual rate. This decline was more than offset by a rise in multifamily starts. The second-quarter pace of 643 thousand units for multifamily starts was the highest since the

PERSONAL INCOME
(Based on seasonally adjusted data)

	1977	1978		Apr. 78	May 78
		QI	QII	to May 78	to June 78
- - Average monthly change, in billions of dollars - -					
Total personal income	\$13.5	\$12.0	\$17.9	\$11.2	\$14.4
Nonagricultural income	12.7	13.0	16.9	8.9	12.3
Agricultural income	.9	-1.0	1.0	2.3	2.0
Wage and salary disbursements	8.4	9.9	12.6	3.5	7.3
Private	7.2	8.8	11.8	2.6	6.4
Manufacturing	2.7	3.2	2.9	1.4	1.5
Other income	5.6	3.6	5.9	14.3	13.6
Transfer payments	1.4	1.0	.6	1.5	.6
- - Per cent change, compound annual rate ^{1/} - -					
Total personal income					
Current dollars	11.4	9.3	13.8	8.0	10.3
Constant dollars ^{2/}	4.3	1.4	2.6	-3.2	-2.4
Wage and salary disbursements					
Current dollars	11.1	12.1	15.2	3.9	8.1
Constant dollars ^{2/}	4.1	3.9	4.0	-7.6	-7.3

^{1/} Monthly per cent changes at annual rates, not compounded; 1977, per cent changes over four quarters of the year.

^{2/} Deflated by CPI, seasonally adjusted. Beginning January 1978, deflated by CPI/U, seasonally adjusted.

first quarter of 1974; the recent strength in this sector appears to have come largely from non-subsidized activity as only a tenth of the quarterly rise was accounted for by subsidized starts under the Section 8 rental assistance program. Meanwhile, vacancy rates were little changed in the second quarter and rental markets continued relatively tight.

Business Investment

The book value of manufacturers' inventories increased at a \$16.7 billion annual rate in June, and the buildup for the second quarter was a \$20.9 billion rate. Large price increases have contributed to the sizable rise in book-value inventories. Relative to sales, book-value stocks in manufacturing and trade generally remain low. Most of the inventory investment so far this year has been in durable goods and this trend continued in June.

New orders for nondefense capital goods, which have been on a plateau since February, declined 2.4 per cent in June following an increase of about 4 per cent in May. For the second quarter as a whole, these bookings increased 2-1/2 per cent, after rising strongly in the first quarter. The weakness in June was fairly widespread and the machinery component of nondefense capital goods, a good indicator of the underlying demand for heavy capital equipment, was somewhat below the December level. By contrast, these machinery orders grew 22 per cent in 1977.

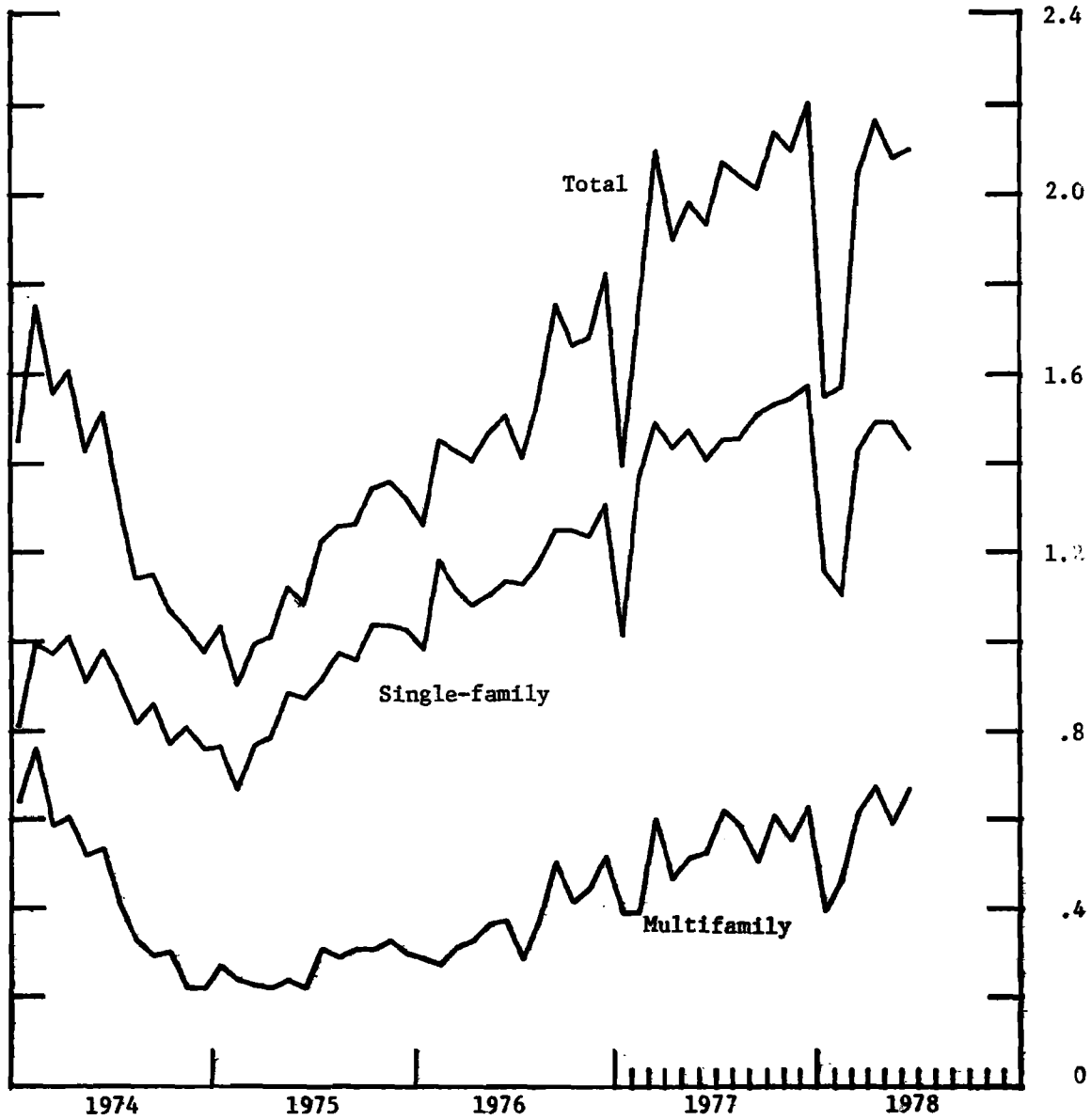
Construction contracts for private nonresidential structures-- a volatile series--dropped sharply in June. In the absence of awards for power plants, the nonbuilding component dropped particularly sharply in June, and contracts for manufacturing buildings also slowed considerably. For the first half of 1978, however, these awards were 11 per cent above the comparable period of 1977 in nominal terms. In contrast to contract commitments, private nonresidential construction put-in-place rose rapidly throughout the second quarter. In June, such construction spending was 19 per cent above a year earlier.

Government Sector Activity

Unified Federal budget receipts were somewhat larger than expected in June, with the increase occurring primarily in withheld individual tax receipts. It now appears that FY 1978 receipts will total about \$401 billion--roughly \$1 billion more than the Administration's mid-year projection. Spending in June was a bit more than expected, but FY 1978 outlays are still projected to total \$450 billion. As a result, a \$49 billion deficit is anticipated in the current fiscal year.

Looking ahead to fiscal year 1979, the Administration's Mid-Session Review projects a \$48-1/2 billion deficit, with outlays and receipts totalling \$496-1/2 billion and \$448 billion, respectively. Consideration of alternative spending and tax proposals may lead to changes in their totals.

NEW PRIVATE HOUSING STARTS
(Millions of units, S.A.A.R.)



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

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	May 1/	June 2/
Manufacturing and trade	31.0	28.3	25.2	17.8	44.2	n.a.	35.7	n.a.
Manufacturing	10.6	15.7	10.2	2.8	16.6	20.9	23.7	16.7
Durable	6.4	7.8	7.7	3.8	13.2	14.7	19.5	11.3
Nondurable	4.2	7.9	2.4	-1.0	3.4	6.1	4.2	5.4
Trade, total	20.4	12.6	15.0	14.9	27.6	n.a.	12.0	n.a.
Wholesale	12.0	2.6	4.7	7.5	19.5	n.a.	-1.2	n.a.
Retail	8.4	10.0	10.3	7.4	8.1	n.a.	13.2	n.a.
Auto	.8	2.2	1.5	2.9	.9	n.a.	1.4	n.a.

1/ Revised.
2/ Preliminary.

INVENTORY RATIOS

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	May 2/	June 2/
<u>Inventory to sales:</u>								
Manufacturing and trade	1.46	1.46	1.48	1.44	1.46	n.a.	1.41	n.a.
Manufacturing	1.60	1.60	1.61	1.56	1.56 ^{1/}	1.52	1.51	1.51
Durable	1.97	1.96	1.96	1.90	1.90	1.85	1.86	1.85
Nondurable	1.20	1.22	1.22	1.18	1.17	1.14	1.13	1.12
Trade, total	1.33	1.32	1.35	1.33	1.36	n.a.	1.30	n.a.
Wholesale	1.24	1.21	1.24	1.23	1.27	n.a.	1.18	n.a.
Retail	1.41	1.43	1.45	1.42	1.45	n.a.	1.42	n.a.

1/ Revised.
2/ Preliminary.

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT^{1/}
 (Per cent change from preceding comparable period, seasonally adjusted)

	1977		1978			June 77 to June 78	
	QIII	QIV	QI	QII	May June		
<u>Current dollars</u>							
Total	-0.3	4.1	11.7	-5.6	12.7 -8.6	7.0	
Nondefense capital goods orders	-1.1	10.3	5.6	2.4	4.1 -2.4	14.2	
Construction contracts ^{2/}	3.2	-22.0	48.4	-40.0	98.9 -40.8	-30.6	
<u>1972 dollars</u>							
Total	-2.4	2.2	9.4	-6.3	11.9 -8.7	.6	
Nondefense capital goods orders	-3.2	8.2	3.5	1.6	3.5 -2.6	7.3	
Construction contracts ^{2/}	1.3	-23.9	46.5	-40.9	98.1 -41.1	-35.1	

^{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 for private nonbuilding projects (e.g., electrical utilities, pipelines, etc.).

^{2/} FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

Spending by States and localities has moderated somewhat after substantial increases early in the second quarter. Value of construction put-in-place declined slightly in June, following sharp gains during the three preceding months. In real terms, such outlays were about 4 per cent above a year earlier. Employment by these governments was up 20,000 in July after being unchanged in June.

Prices

Inflation continued at a rapid pace in June, as retail prices registered their third consecutive monthly increase of 0.9 per cent. Over the first half, retail prices accelerated to a 10-1/2 per cent annual rate from a 6-3/4 per cent rate over all of last year. At the same time, the gross business product fixed-weighted price index rose at a 9 per cent annual rate over the first half of 1978. While food prices have been a major source of the acceleration, other factors also have contributed to the advance. Excluding food and energy items, consumer prices have risen about 9 per cent (annual rate) so far this year compared to a 6-1/2 per cent increase during 1977.

Retail food prices rose at more than an 18 per cent annual rate during the past six months, with beef and fresh vegetables showing the most dramatic increases. Prices of sugar and sweets as well as dairy products, which were boosted by U.S. Government price supports, also have risen sharply. Some moderation occurred in food price increases during June, as prices of fresh vegetables, pork, eggs,

II - 15
RECENT CHANGES IN PRODUCER PRICES
 (Per cent change at compound annual rates; based
 on seasonally adjusted data)^{1/}

	Relative Importance Dec. 1977	1977				1978			
		QI	QII	QIII	QIV	QI	QII	May	June
Finished goods	41.2	10.0	6.4	2.9	7.2	9.4	11.4	8.8	8.7
Consumer foods	10.3	17.9	4.3	-2.3	7.4	21.0	14.8	5.8	13.3
Consumer nonfoods	18.7	9.0	7.8	4.0	4.7	5.1	10.7	9.3	5.3
Capital equipment	12.2	5.0	6.8	6.0	10.9	6.9	9.4	10.4	9.7
Materials:									
Intermediate ^{2/}	45.5	8.9	5.5	7.1	4.2	9.0	6.2	6.2	5.6
Crude nonfood	4.6	25.6	-8.1	-5.3	20.1	15.7	12.4	4.3	20.2
Crude food	6.3	24.0	-16.6	-19.6	27.6	43.6	25.2	.6	23.2
Memo: Energy ^{3/}	11.3	22.8	15.2	7.6	2.7	4.3	9.9	9.1	11.6

^{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/} Fuels and related products and power.

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

	Relative Importance Dec. 77 ^{2/}	1977				1978 ^{2/}			
		QI	QII	QIII	QIV	QI	QII	May	June
All items	100.0	10.0	7.8	4.5	4.9	9.3	11.4	11.3	10.5
Food	17.7	15.3	11.5	1.9	4.2	16.4	20.4	17.9	15.9
Commodities (nonfood)	41.6	7.4	4.2	2.7	5.4	6.1	7.2	7.0	7.6
Services	40.7	9.8	9.4	7.6	4.9	9.1	11.8	12.2	10.3
Mémoranda:									
All items less food and energy ^{3/}	73.7	8.5	6.9	5.1	5.3	8.0	9.9	9.7	10.3
Gas and electricity	3.4	12.5	11.9	12.0	-9	12.2	22.1	22.1	21.7
Gasoline and fuel oil ^{4/}	5.2	12.5	9.9	.8	2.0	.2	8.4	7.5	13.2
Home financing, taxes, and insurance	9.2	16.2	14.3	9.6	5.1	16.7	21.6	22.2	16.5

^{1/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{2/} Based on new index for all urban consumers.

^{3/} Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

^{4/} Includes motor oil, coal, and bottled gas.

and coffee declined. A decline in prices received by farmers between mid-June and mid-July may indicate further near-term moderation in retail food price increases.

Another source of acceleration in retail prices has been in the services category. The dominant factors in the speed-up have been home financing costs and natural gas and electricity prices which have risen at annual rates of nearly 20 per cent. Earlier in the year, prices of numerous other services were boosted, partly in response to the minimum wage hike. In June, service prices advanced further, although the rise in medical costs moderated from their high first-quarter rates. In addition, prices for nonfood commodities were boosted in June by sharp increases for new and used cars as well as houses, while most nondurable commodities were up modestly.

Compensation and Productivity

Hourly compensation--which includes both wages and supplements--increased at about an 8 per cent annual rate in the second quarter in the nonfarm business sector after rising at a 12 per cent rate in the first quarter. The slowing reflected in part smaller wage increases as both the direct and indirect adjustments to the minimum wage hike, especially in the trade and service sectors, were largely completed. Since March, the index of hourly earnings has risen at an 8 per cent annual rate, following a 10 per cent rate in the first three months of the year.

HOURLY EARNINGS INDEX^{1/}
 (Per cent changes, based on seasonally adjusted data)

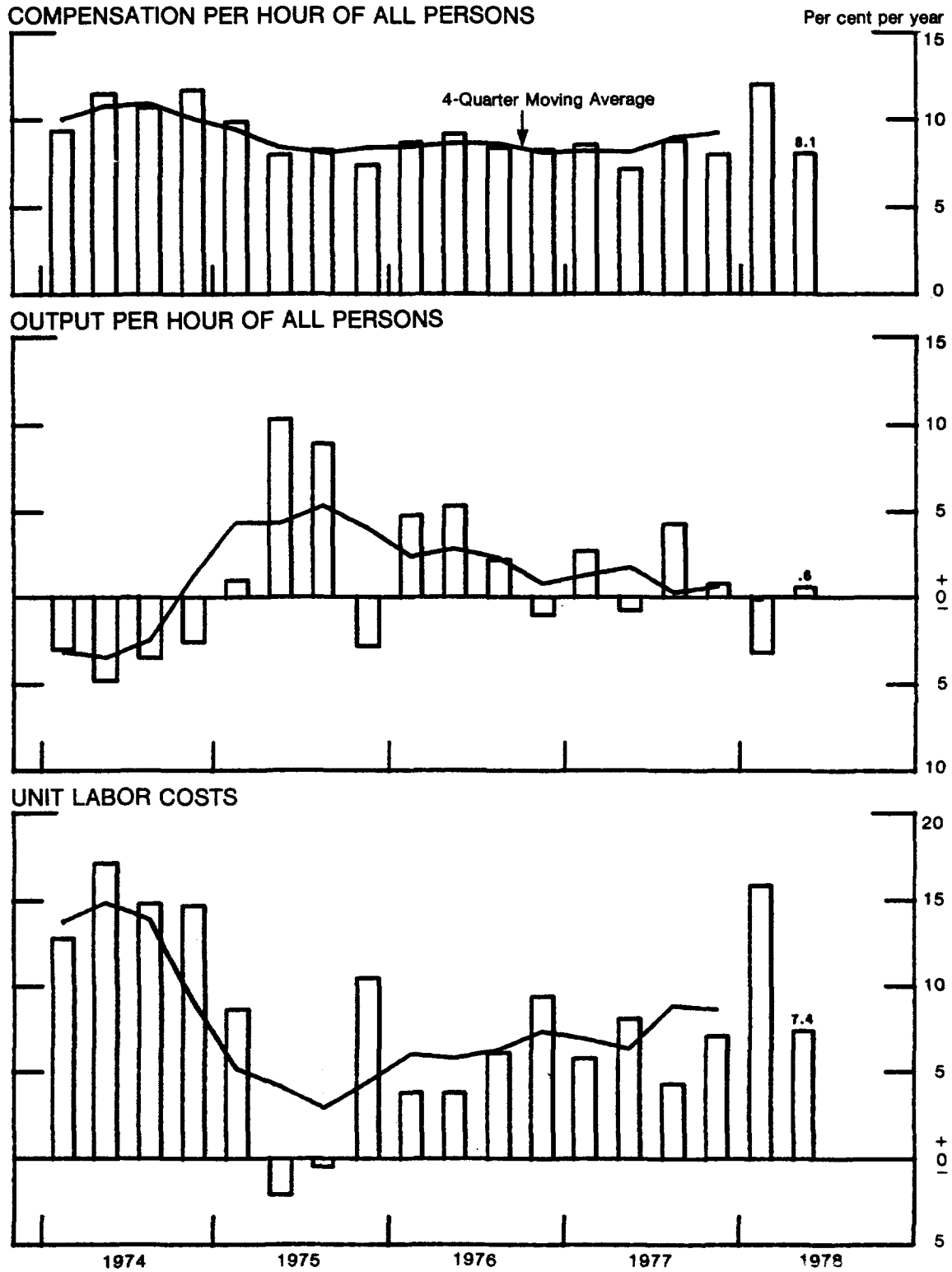
	Dec. 75 to Dec. 76	Dec. 76 to Dec. 77	Dec. 77. to Mar. 78 ^{2/}	March 78 to July 78 ^{2/}
Total private nonfarm	6.9	7.6	10.0	8.0
Manufacturing	7.5	8.0	9.2	7.9
Contract construction	5.3	4.8	10.2	8.5
Transportation and public utilities	7.0	8.8	6.5	6.8
Total trade	7.0	7.6	12.7	8.2
Services	7.0	7.9	11.7	5.4

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

^{2/} Computed at a compound annual rate.

Productivity and Costs - Nonfarm Business Sector

Compound Annual Rate of Change From Previous Quarter, Seasonally Adjusted Data



While hourly compensation has continued to rise substantially, productivity growth in the nonfarm business sector has remained weak. Output per hour in this sector has registered gains of less than 1 per cent a year, or has declined, in five of the last seven quarters. Output growth was quite strong, in the second quarter, but it was accompanied by the sharpest quarterly increase in total hours worked in 25 years, and productivity was little changed. By contrast, with a slowing of additions to factory payrolls, output per hour in manufacturing rebounded sharply in the second quarter.

With nonfarm business sector productivity little changed in the second quarter, unit labor costs rose at a 7-1/2 per cent annual rate to a level 8-1/2 per cent above a year ago. This substantial increase in unit costs followed an exceptionally large first-quarter rise that was associated with weak output growth and mandated compensation increases.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
			Month	Three	Year
	Period	Level	ago	months ago	ago
		\$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	July	38.2	16.4	14.0	8.4
Nonborrowed reserves	July	36.9	9.6	5.8	5.7
Money supply					
M1	July	351.7	4.8	6.2	7.4
M2	July	846.2	8.1	8.0	8.1
M3	July	1441.4	9.8	8.6	9.4
Time and savings deposits (less CDs)	July	494.6	11.0	9.3	8.6
CDs 2/	July	87.4	.7	4.0	24.6
Thrift deposits (S&Ls + MSBs + Credit Unions)	July	595.2	12.0	9.6	11.4
Bank credit (end of month)	July	939.8	16.7	12.9	11.5

Indicator	Latest data		Net change from:		
			Month	Three	Year
	Period	Per cent or index	ago	months ago	ago
Market yields and stock prices					
Federal funds	wk. endg. 8/2/78	7.89	.17	.61	2.08
Treasury bill (90 day)	" 8/2/78	6.78	-.21	.40	1.41
Commercial paper (90-119 day)	" 8/2/78	7.81	.03	.90	2.32
New utility issue Aaa	" 8/4/78	8.96	-.22	--	--
Municipal bonds (Bond Buyer) 1 day	8/3/78	6.12	-.19	.14	.49
FNMA auction yield (FHA/VA)	8/7/78	9.82	-.20	.30	1.07
Dividend price ratio (common stocks)	wk endg. 8/2/78	4.98	-.40	-.25	.30
NYSE index (12/31/65=50)	end of day 8/7/78	58.20	4.86	4.38	4.54

Indicator	Net Change or Gross Offerings			
	Latest Period	Year Data	Year ago	Year to Date 1978 1977
				\$ billions

Credit demands					
Business loans at commercial banks 1/	July	2.0	2.0	20.4	13.1
Consumer instalment credit outstanding 1/	June	3.8	2.4	20.6	15.0
Mortgage debt outstanding (major holders) 1/	May	9.4	8.7	42.0	35.3
Corporate bonds (public offerings)	July	2.1e	2.4	12.3e	14.5
Municipal long-term bonds (gross offerings)	July	3.7e	3.1	27.8e	27.8
Federally sponsored agcy. (net borrowing)	July	2.0	.7	13.1	4.4
U.S. Treasury (net cash borrowing)	Aug.	4.1	7.8	30.6	26.1

1/ Seasonally adjusted.

2/ \$ billions, not at annual rates.

e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Market interest rates generally have moved lower since the last FOMC meeting, and stock prices have increased sharply. Yields on most fixed-income securities have declined 20 to 35 basis points. The easing in security markets, following substantial tightening in previous months, reflected a number of developments. The rise in the Federal funds rate into the 7-7/8 per cent area from 7-3/4 per cent was less than many market participants had anticipated. Moreover, interest rate expectations apparently have been tempered by a slowing of M-1 growth, by incoming data suggesting that economic activity has moderated significantly from the strong second quarter pace, and by Chairman Miller's recent statements that market interest rates may be near a cyclical peak. Treasury bill rates have been subject to additional downward pressure due to substantial demand for these instruments by foreign central banks investing funds obtained in dollar exchange support operations.

M-1 growth in July was down slightly from June and well below the rapid pace for the second quarter as a whole. At commercial banks, growth of total time and savings deposits subject to rate ceilings was quite sluggish, and managed liabilities were utilized to help finance strong credit expansion. Deposit growth at the nonbank thrift institutions increased significantly in July, as the new money market certificates again attracted sizable volumes of funds. Nevertheless, S&Ls continued to borrow heavily from the FHLBanks to help meet demands for mortgage credit.

III - 2
SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 <u>1/</u>		1978 <u>2/</u>				Change from:	
	High	Low	FOMC June 20	FOMC July 18	Aug. 1	Aug. 8	June FOMC	July FOMC
<u>Short-term rates</u>								
Federal funds <u>1/</u>	6.65	4.47	7.53	7.94	7.89	7.82 ^{3/}	+ .29	- .12
Treasury bills								
3-month	6.27	4.41	6.74	7.09	6.88	6.72	- .02	- .37
6-month	6.51	4.55	7.30	7.46	7.31	7.14	- .16	- .32
1-year	6.62	4.67	7.59	7.78	7.71	7.53	- .06	- .25
Commercial paper								
1-month	6.58	4.53	7.57	7.75	7.56	7.54	- .03	- .21
3-month	6.66	4.63	7.68	7.88	7.82	7.78	+ .10	- .10
Large negotiable CDs <u>4/</u>								
3-month	6.62	4.60	7.90	8.13	7.95	7.88	- .02	- .25
6-month	6.84	4.65	8.30	8.65	8.40	8.30	0	- .35
Bank prime rate	7.75	6.25	8.75	9.00	9.00	9.00	+ .25	0
<u>Intermediate- and long-term rates</u>								
Corporate								
New AAA	8.36	7.90	9.03	9.17	9.08	8.96 _p	- .07	- .21
Recently offered <u>6/</u>	8.48	7.95	8.96	9.22	9.10	8.95 _p	- .01	- .27
Municipal								
(Bond Buyer) <u>7/</u>	5.93	5.45	6.16	6.32	6.24	6.12	- .04	- .20
U.S. Treasury								
(constant maturity)								
3-year	7.39	5.74	8.34	8.54	8.46	8.18	- .16	- .36
7-year	7.66	6.48	8.45	8.54	8.45	8.31	- .14	- .23
20-year	7.96	7.20	8.52	8.68	8.57	8.40	- .12	- .28
	<u>Low</u> <u>8/</u>	<u>High</u> <u>8/</u>	FOMC June 20	FOMC July 18	Aug. 1	Aug. 8	June FOMC	July FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	807.74	985.74	830.04	829.00	860.71	889.21	+59.17	+60.21
N.Y.S.E. Composite	50.13	56.98	54.22	54.45	56.61	58.47	+4.25	+4.02
AMEX	110.37	126.86	148.22	150.17	154.57	159.05	+10.83	+8.88
Keefe Bank Stock <u>6/</u>	530	633	646	632	641	641	-5	+9

- 1/ Daily averages for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending August 9.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

Funds raised by nonfinancial businesses and households during July apparently remained around the volume registered in June. Short- and intermediate-term business borrowing picked up from the reduced June pace, while gross offerings of bonds by nonfinancial corporations remained relatively light and new equity issues declined. Home mortgage borrowing appears to have edged up from the moderately improved second quarter rate, and consumer credit growth probably held near the extremely rapid pace of recent months. Funds raised by the public sectors have shown largely seasonal changes. Long- and short-term borrowing by State and local governments declined moderately in July, before seasonal adjustment. While Treasury borrowing increased somewhat, it remained about in line with the pace of the second quarter, after allowance for seasonal variations.

Monetary Aggregates and Bank Credit

M-1 grew at a 4-3/4 per cent annual rate in July, compared with 6 per cent in June and 9-1/2 per cent for the second quarter as a whole. The slowdown in M-1 growth during June and July may have reflected a lagged response to System tightening actions begun in the spring, along with moderation in the pace of economic activity and the accompanying demand for transactions balances. In addition, unusual increases in Treasury deposits over the two months further restrained M-1 growth.

M-2 advanced at an 8 per cent annual rate in July, about the same as in the preceding two months. Growth in the interest-earning component of M-2 (line 5 of the table) picked up slightly, owing entirely

MONETARY AGGREGATES
(Seasonally adjusted)^{1/}

	1977	1978					July '77
	QIV	QI	QII	May	June	July ^P	to July '78 ^P
<u>Major monetary aggregates</u>							
1. M-1 (currency plus demand deposits)	7.5	5.6	9.5	8.0	5.9	4.8	7.4
2. M-2 (M-1 plus time & savings deposits at CBs other than large CDs)	8.2	6.9	8.3	7.8	7.8	8.1	8.1
3. M-3 (M-2 plus all deposits at thrift institutions)	10.7	7.7	8.0	7.6	8.4	9.5	9.4
<u>Bank time and savings deposits</u>							
4. Total	13.1	13.4	11.0	14.4	6.7	10.8	12.3
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	8.6	7.9	7.4	7.7	8.9	11.0	8.6
6. Savings deposits	5.4	2.6	1.6	2.2	-1.6	-4.9	3.1
7. Individuals ^{2/}	6.6	2.4	2.1	1.7	-2.3	-0.6	3.9
8. Other ^{3/}	-7.6	2.6	-5.2	-7.8	15.8	-54.5	-6.4
9. Time deposits	11.6	12.7	12.3	12.8	18.1	23.2	13.4
10. Small time ^{4/}	3.4	6.1	10.3	9.9	14.0	11.1	7.4
11. Large time ^{4/}	28.3	25.5	15.5	18.3	24.4	46.6	25.8
12. Time and savings deposits subject to rate ceilings (6+10)	4.5	4.0	5.5	5.5	5.2	2.1	5.0
<u>Deposits at nonbank thrift institutions ^{5/}</u>							
13. Total	14.4	8.9	7.7	7.2	9.4	12.0	11.4
14. Savings and loan associations	15.4	9.0	7.9	7.6	9.9	13.2	12.0
15. Mutual savings banks	9.9	5.8	3.9	4.5	5.3	6.2	7.0
16. Credit unions	20.0	18.2	15.8	12.1	16.8	18.9	19.5
<u>Average monthly changes, billions of dollars</u>							
MEMORANDA:							
17. Total U.S. govt. deposits	0.2	-1.2	1.1	-1.0	4.0	2.9	0.2
18. Total large time deposits ^{6/}	5.7	4.4	2.8	5.1	1.5	4.4	3.7
19. Nondeposit sources of funds ^{7/}	1.5	1.7	0.7	0.1	1.0	0.3	1.3

p—preliminary.

^{1/} Quarterly growth rates are computed on a quarterly average basis.

^{2/} Savings deposits held by individuals and nonprofit organizations.

^{3/} Savings deposits of business, government, and others, not seasonally adjusted.

^{4/} Small time deposits in denominations less than \$100,000.

Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

^{5/} Growth rates computed from monthly levels based on average of current and preceding end-of-month data.

^{6/} All large time certificates, negotiable and nonnegotiable, at all CBs.

^{7/} Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

to a surge in the large time deposits included in this aggregate--non-negotiable CDs and negotiable CDs at other than weekly reporting banks. Total time and savings deposits subject to rate ceilings (line 12) posted only a small advance. Growth in small-denomination time deposits (line 10) slowed somewhat from the relatively brisk pace of June--despite a sharp increase in issuance of the new money market certificates, which are included in this category. Savings deposits declined more markedly than in June; most of the weakness reflected withdrawals by domestic government units,^{1/} as deposits of individuals fell by somewhat less than in June.

M-3 expansion accelerated in July, as deposit growth at nonbank thrift institutions advanced further. Judging from survey results, money market certificates continued to attract a sizable volume of deposits at the thrifts.^{2/} As of July 20, S&Ls had issued an estimated \$9.6 billion of the certificates, representing more than 2 per cent of total deposits outstanding at these institutions. Latest available survey data for MSBs (July 5) suggest that money market certificate balances at these institutions stood at roughly \$2.4 billion.

^{1/} Some of the decline in domestic government savings balances may have been seasonal. Lack of sufficient data for regular seasonal adjustment procedures makes it difficult to determine the extent to which changes represent normal seasonal patterns.

^{2/} Despite the performance of the new certificates, alternative short-term investments continued to attract substantial amounts of funds in July. Combined assets of money market mutual funds expanded by nearly \$500 million to a record \$7.3 billion. Noncompetitive tenders at weekly Treasury bill auctions averaged \$578 million (SA), compared with \$534 million in June.

COMMERCIAL BANK CREDIT

(Per cent changes at annual rates, based on seasonally adjusted data)^{1/}

	1977	1978			12 mos		
	QIV	QI	QII	May	June	July	ending July
Total loans & investments ^{2/}	9.5	9.7	13.5	15.6	6.0	16.7	11.5
Investments	-5.1	3.3	8.6	1.4	5.5	9.2	1.8
Treasury securities	-20.3	—	11.7	-6.1	16.1	15.9	-4.2
Other securities	4.6	5.3	6.7	5.9	-0.7	5.2	5.9
Total loans ^{2/}	15.8	12.3	15.4	21.2	6.2	19.6	15.8
Business loans	11.7	16.3	19.0	32.8	6.0	10.8	15.2
Security loans	-10.4	-29.9	62.4	-94.1	76.6	54.0	11.2
Real estate loans	17.8	16.1	17.2	19.4	16.5	16.9	18.5
Consumer loans	15.5	14.6	21.0	20.3	22.8	n.a.	n.a.

MEMORANDA:

1. Commercial paper issued by nonfinancial firms ^{3/}	15.8	-2.5	30.6	-7.4	51.9	56.8	19.6
2. Business loans at banks net of bank holdings of bankers acceptances	12.6	17.8	19.5	30.5	6.1	13.2	16.2
3. Sum of items 1 & 2	12.8	16.1	20.3	28.3	8.7	16.3	16.4
4. Memo item 3 plus business loans from finance companies	16.4	15.5	18.6	24.7	9.0	n.a.	n.a.

n.a.—not available.

^{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 to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.^{3/} Measured from end of month.

Commercial bank loans and investments expanded at a 16-3/4 per cent annual rate in July. Loans increased at a 19-1/2 per cent rate, and bank holdings of Treasury and other securities also rose during the month. Strength in bank lending was widespread among the major loan categories. Growth in business loans rebounded to a 10-3/4 per cent annual rate, up from the June pace but still well below average rates of growth in the first two quarters of the year. Real estate loans at all commercial banks continued to expand rapidly, and evidence for large banks suggests that consumer lending may have maintained the vigorous pace of recent months.

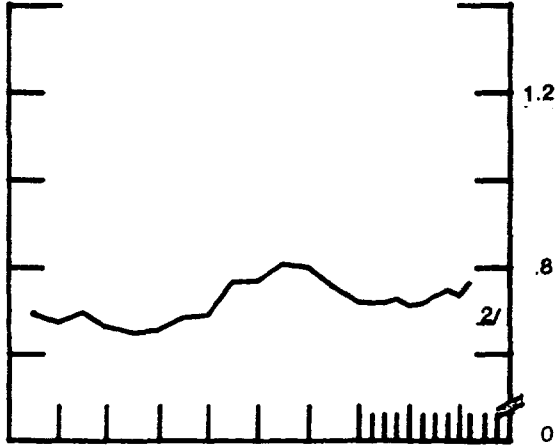
The sharp increase in commercial bank lending this year has raised loan-to-deposit ratios at banks of all sizes, with the exception of large banks in New York City (see chart, p. III-8). The upturn has been most marked at the largest regional banks (very large banks outside New York City), and for these and other large banks (outside New York City), ratios have been approaching the peaks reached in 1974. At smaller nonagricultural banks, loan-to-deposit ratios advanced through March (most recent data available) to the highest level of the decade. Moreover, at agricultural banks^{1/} loan-to-deposit ratios in the first quarter appear to have resumed the general uptrend that has been evident since 1975, following a decline last fall associated with improved farm income.

^{1/} Agricultural banks are those with agricultural loans accounting for more than 25 per cent of total loans.

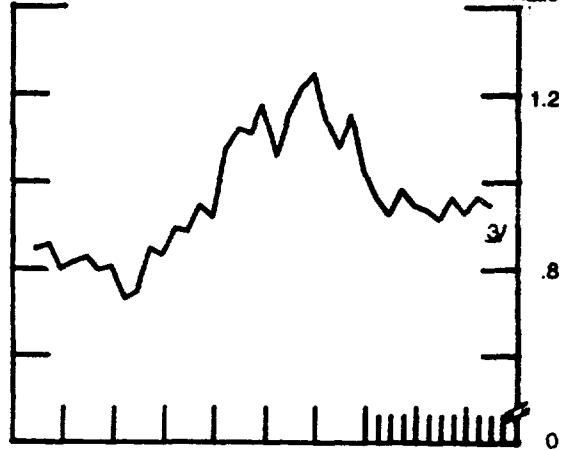
Ratio of Loans to Deposits^{1/}

Domestic Loans and Deposits Only, End of Quarter, Not Seasonally Adjusted

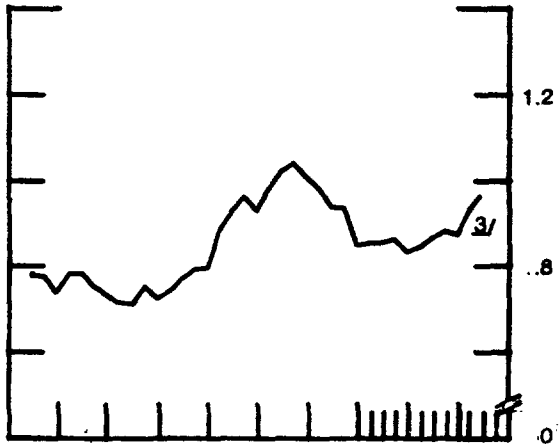
ALL COMMERCIAL BANKS



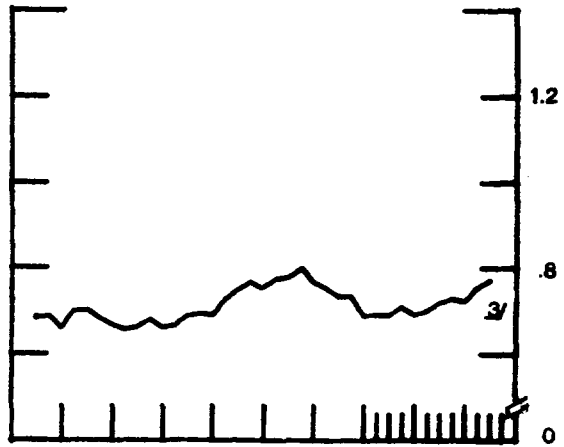
LARGE NEW YORK CITY BANKS



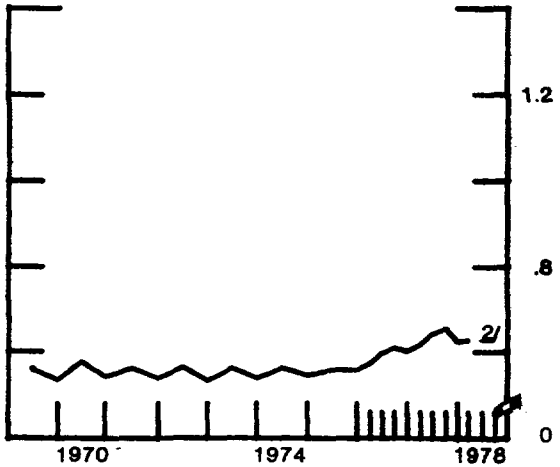
LARGEST REGIONAL BANKS



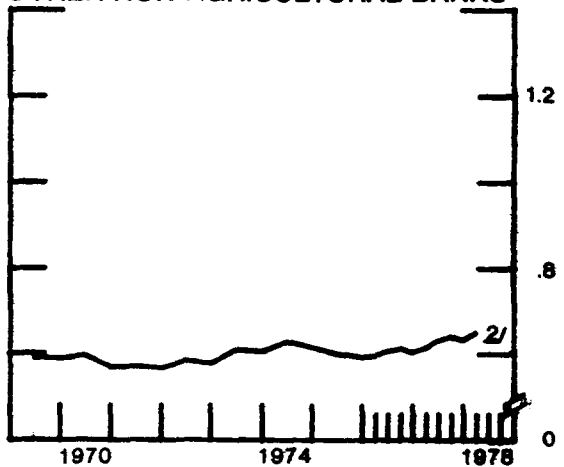
OTHER LARGE BANKS



AGRICULTURAL BANKS



OTHER NON-AGRICULTURAL BANKS



^{1/} Deposits exclude negotiable CDs at weekly reporting banks.
^{2/} Most recent observation is March 1978.
^{3/} Most recent observation is June 1978.

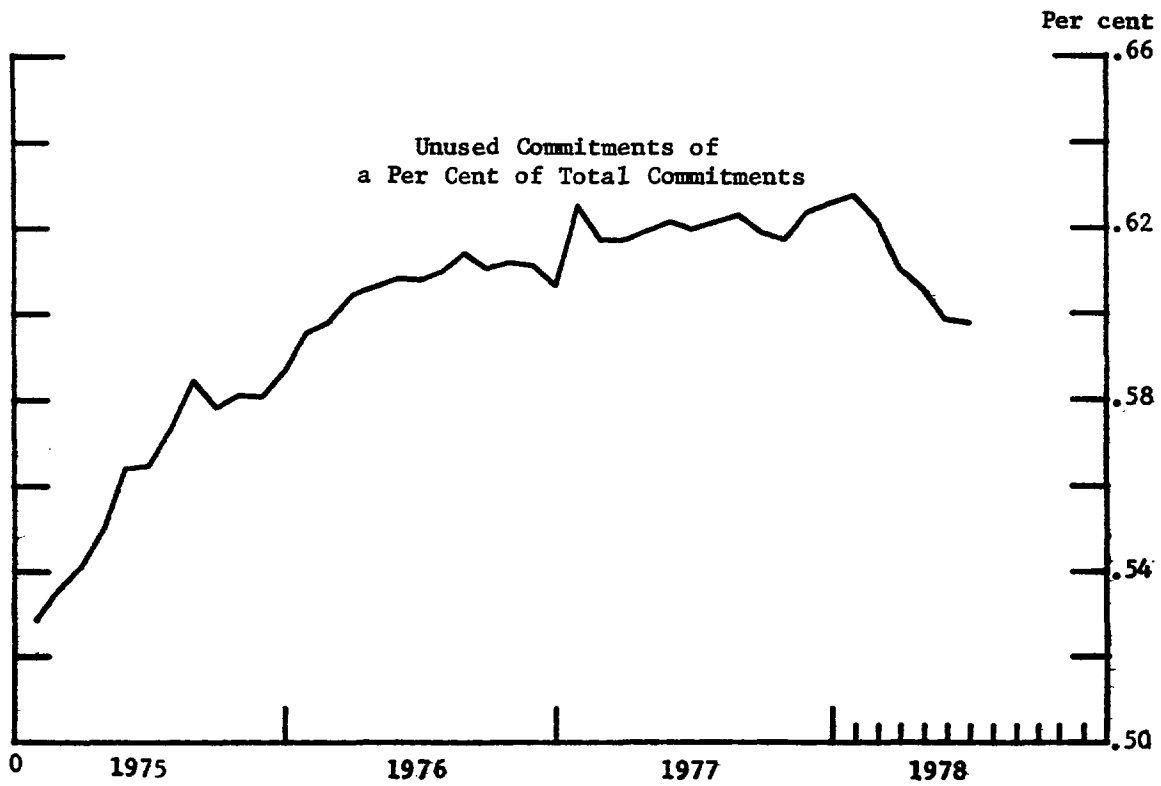
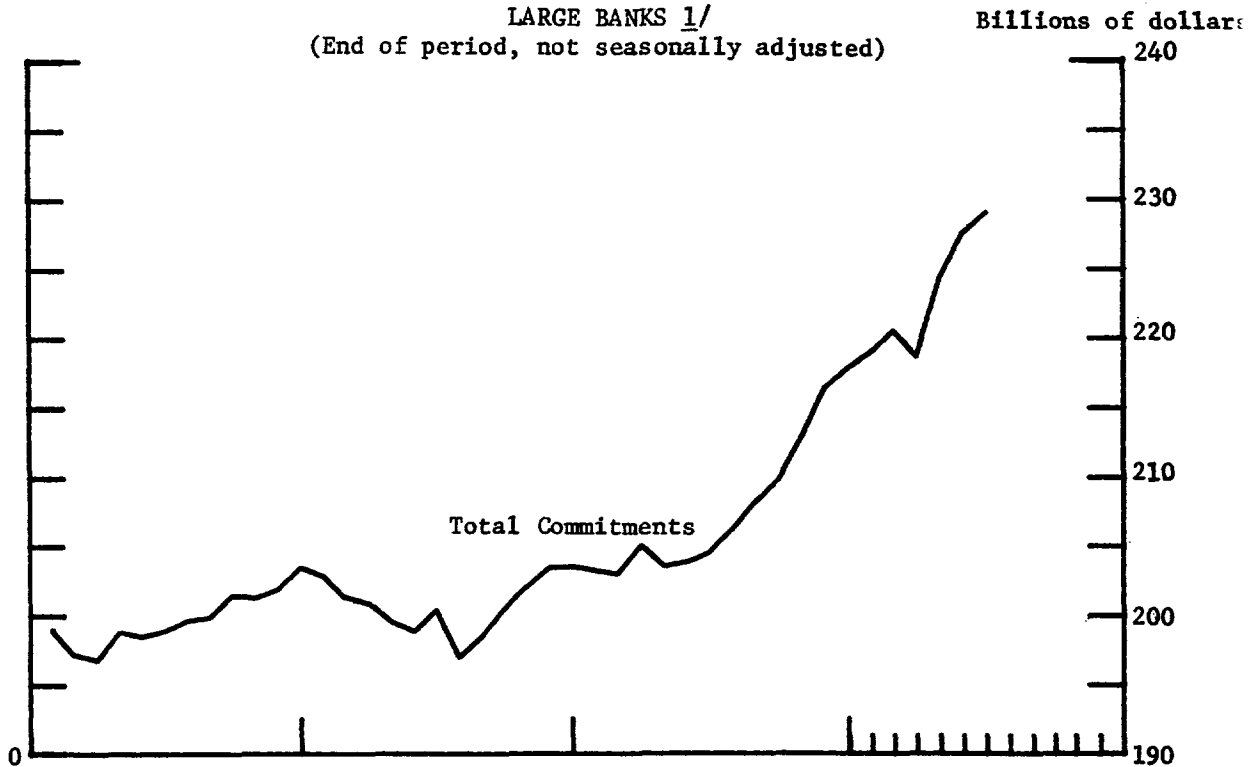
Some reports indicate that, with loan demand strong relative to deposit inflows, regional and smaller banks have recently been tightening their own business loan terms and have been turning to larger correspondents for loan participations. In contrast to earlier periods, however, the generally high loan-to-deposit ratios have not as yet been accompanied by widespread reports of unavailable funds or severe stringency in the terms of lending.

The commercial banking system again turned to managed liabilities in order to help finance loan growth in July. Funds raised through large-denomination time deposits (not subject to rate ceilings) picked up during the month, although expansion of negotiable CDs at large banks was well below the pace established earlier in the year. Nondeposit sources of funds edged higher in July, as member bank borrowing both from the discount window and from foreign branches advanced.

Business Credit

The pickup in business lending at commercial banks in July was concentrated at small banks; growth at large banks was weak during both June and July, following a surge in May. Earlier in the year, growth in business term loans at large banks was vigorous, keeping pace with the expansion of short-term business lending. Some of this strength apparently was due to willingness by large banks to make term loans at fixed, rather than floating, rates of interest. More recently, some regional banks

III - 10
 BUSINESS LOAN COMMITMENTS AND
 COMMITMENT UTILIZATION AT SELECTED
 LARGE BANKS ^{1/}
 (End of period, not seasonally adjusted)



^{1/} Sample consists of 134 large weekly reporting banks which account for about 85 per cent of commercial and industrial loans.

reportedly have become less interested in making term loans at fixed rates, and term lending at large banks has slowed somewhat.

Business loan commitments outstanding at selected large commercial banks have continued the uptrend that has characterized the past three years, as firms have built their credit lines as a hedge against possible future financing needs (see chart, p. III-10). The surge in loans this year has lowered the ratio of unused to total commitments noticeably, but the level of unused lines remains well above the estimated lows of late 1974. The large volume of unused commitments represents a potential source of pressure on commercial bank liquidity.

Commercial paper issued by nonfinancial businesses continued to expand rapidly in July, continuing a trend that has characterized most of 1978. The sum of bank loans to businesses (excluding bankers acceptances held at large banks) and nonfinancial commercial paper expanded at a 16-1/4 per cent annual rate, up significantly from June but somewhat below the second quarter pace.

Finance company lending to businesses slowed further in June (latest data available), increasing at an 8-1/2 per cent annual rate. During the first half of this year, growth of such lending was at about half the exceptional 23 per cent rate recorded in 1977. The slowdown was associated primarily with reductions in the wholesale automotive category, as dealer inventories of cars and trucks peaked early in the spring and then declined. With strong growth in bank loans to business and the expansion of nonfinancial commercial paper, the share of total

III - 12
SECURITY OFFERINGS

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

	1977	1978					
	Year	QI	QII ^{e/}	June ^{e/}	July ^{e/}	Aug. ^{f/}	Sept. ^{f/}
Corporate securities--total	4,518	3,371	3,661	4,200	3,300	2,800	3,300
Publicly offered bonds	2,016	1,583	1,819	1,800	2,100	1,400	1,500
By quality <u>1/</u>							
Aaa and Aa	1,089	765	883	700	1,025	--	--
Less than Aa <u>2/</u>	927	817	950	1,100	1,075	--	--
By type of borrower							
Utility	692	475	575	800	885	--	--
Industrial <u>3/</u>	700	546	633	525	390	--	--
Financial	624	561	625	475	825	--	--
Privately placed bonds	1,501	1,128	1,051	1,200	800	800	1,200
Stocks	1,001	660	791	1,200	400	600	600
Foreign securities--total	621	537	722	557	343	--	--
Publicly offered <u>4/</u>	437	425	507	320	100	125	300
Privately placed	184	112	215	237	243	--	--
State and local gov't. securities--total	5,771	5,172	7,094	6,078	5,200	6,400	4,500
Long-term	3,891	3,594	4,455	4,186	3,700	5,200	3,000
Short-term	1,880	1,578	2,639	1,892	1,500	1,200	1,500
		<u>Net Offerings</u>					
U.S. Treasury	3,433	7,180	-2,417	3,381	1,652	5,750	900
Sponsored Federal agencies	604	1,804	2,219	2,109	743	2,556	1,625

1/ Bonds categorized according to Moody's bond ratings.

2/ Includes issues not rated by Moody's.

3/ Includes equipment trust certificates.

4/ Classified by original offering date.

e/ Estimated.

f/ Forecast.

short- and intermediate-term business lending accounted for by finance companies declined somewhat during the first half of 1978, following sizable increases in 1976 and 1977.

In long-term markets, gross public offerings of corporate bonds by nonfinancial corporations totaled \$1.3 billion in July, as a somewhat heavier slate of utility issues was about offset by a reduced amount of industrial issues. Contrary to the typical seasonal decline, however, the total of corporate bond offerings increased \$300 million to \$2.1 billion, as issues by financial concerns increased sharply. The relatively strong pace of bond issues by financial businesses can be attributed largely to continued heavy offerings by finance companies. Total finance company lending--to both consumers and businesses--has grown by record amounts in recent quarters, and these institutions have attempted to maintain a relatively constant mix between short-term (mostly commercial paper) and longer-term liabilities.

The Board's index of yields on newly-issued Aaa-rated utility bonds was 8.96 per cent in early August, more than 20 basis points below its reading prior to the last FOMC meeting. The recent decline in corporate bond yields has been accompanied by a narrowing in risk premia. Newly issued A-rated utility bonds currently yield about 40 basis points more than Aaa-rated issues, down from 60 basis points in late June.

Most major stock price indexes have increased 6 to 8 per cent since the last FOMC meeting. The N.Y.S.E. Composite index is currently about 10 per cent above its level at year-end 1977, while the A.S.E. and

N.A.S.D.A.Q. Composite indexes are up almost 25 per cent. Investor sentiment was buoyed by the recent decline in interest rates and the strong second quarter rebound in corporate profits; proposals for reducing the tax on capital gains also have been a positive factor. Equity offerings have shown no response as yet to the increase in stock prices. Indeed, they totaled only \$400 million in July, sharply below June's 1978 high of \$1.2 billion. As in other recent months, public utilities accounted for most of the total.

Government Finance

Gross offerings of long-term State and local government debt totaled \$3.7 billion in July, down from June's \$4.2 billion total; refundings amounted to about \$400 million, essentially unchanged from the preceding month. However, a near-record volume of new municipal bonds was marketed in the first week of August, including a large amount of advance refunding issues. Municipal bond yields have declined substantially since the last FOMC meeting, following four months of increase, but the ratio of tax-exempt to taxable bond yields has remained well above its record low in late March.

The relative weakness of the tax-exempt market in recent months has been associated with a heavy pace of offerings and reduced demand for municipal securities by managed bond funds. In June (latest data available), redemptions surpassed sales for the first month since the inception of the tax-exempt bond funds about two years ago. Private

analysts attributed the curtailed flow of net new money to investor apprehension of further deterioration in the share prices of these mutual funds.

The Treasury has raised about \$6.0 billion of new cash in the markets since mid-year, representing about 60 per cent of its financing requirements for this quarter. Since the last FOMC meeting, the Treasury has obtained \$300 million in an auction of 1-year bills, and \$1.3 billion in conjunction with an offering of 2-year notes. In addition, \$2.6 billion of new cash was raised from the domestic public in the latest mid-quarter financing operation as the Treasury sold \$7.0 billion of new issues to redeem \$4.4 billion of maturing securities. Specific issues in this operation included \$2.5 billion of 3-year notes, \$3.0 billion of 7-year notes, and \$1.5 billion of 30-year bonds.^{1/} Foreign accounts purchased an additional \$650 million of Treasury securities in the refunding operation, bringing the total amount of new cash raised to \$3-1/4 billion.

Borrowing by sponsored credit agencies has continued at the relatively strong rate of the second quarter, totalling about \$2.0 billion (on a settlement basis) during July. The bulk of agency borrowing has been associated with continuing support of the mortgage markets by the Federal and related housing agencies--primarily FNMA and FHLBanks.

^{1/} The auction averages on these issues were within 10 basis points of each other, highlighting the flatness of the current Treasury yield curve beyond the 1-year maturity area.

III - 16
INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Conventional home mortgages				
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 ^{2/} with mortgage funds in short supply
1977--High	9.00	--	+92	22
Low	8.65	--	+37	2
1978--High	9.75	--	+70	69
Low	9.00	--	+30	19
1978 Apr	9.43	+18	+51	54
May	9.68	+25	+66	67
June	9.73	+ 5	+57	64
Jul 7	9.73	0	+55	67
14	9.73	0	+56	58
21	9.75	+ 2	+63	62
28	9.75	0	+67	62
Aug 4	9.78	+ 3	+82	n.a.

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

2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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	9.21	885	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--High	717	363	10.21	1011	605	10.02	9.20
Low	75	48	9.28	130	80	9.13	8.43
1978--July 3							9.16
10	170	91	10.17	503	327	10.02	9.14
17							9.14
24	146	88	10.21	253	144	10.00	9.20
31							9.10
Aug 7	75	48	10.15	130	80	9.82	8.89

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 loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids required.

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.

Mortgage Markets

Mortgage market conditions apparently have stabilized in recent weeks after tightening significantly in the first half of the year. Average contract interest rates on new commitments for 80 per cent 30-year conventional home mortgages at sampled S&Ls have risen only slightly since mid-June;^{1/} and although about two-thirds of the S&Ls have continued to report supplies of mortgage funds below normal seasonal patterns, the proportion reporting substantially short supplies has fallen significantly since early June. Secondary market yields for Government-underwritten home loans, which move closely with yields on intermediate-term Treasury securities, have declined markedly since the last FOMC meeting. Moreover, offerings in the last two biweekly FNMA auctions of commitments to purchase home mortgages were well below other recent auctions, reflecting in part some downward revision of interest rate expectations by mortgage originators.

The total volume of mortgage lending in July apparently edged up from the moderately improved second quarter level. The increase in real estate loans at commercial banks was about the same as the large monthly average rise in the second quarter. Net purchases by FNMA of FHA/VA and conventional home mortgages declined somewhat from the extraordinary \$14.5 billion annual rate of the second quarter, but issues of the GNMA-

^{1/} With rates averaging around 9.75 per cent nationally, originations of home mortgages have reportedly been constrained in some areas by State usury ceilings; 14 States currently have ceilings of 10 per cent and in six States they are below the 10 per cent level. However, FHA/VA loans are exempt from the ceilings in most States, and 8 of the 20 States permit the charging of points to raise effective yields above ceiling rates. Average points charged on conventional mortgages by S&Ls rose to 1.5 in early July, but have edged off in recent weeks.

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

	1977			1978	
	Q2	Q3	Q4	Q1	Q2 ^{e/}

By type of debt:

Total	136	142	152	132	136
Residential	113	115	117	99	102
1- to 4-family	105	108	107	89	91
Multifamily	8	7	10	10	11
Commercial	14	18	26	23	24
Farm	9	9	9	10	10

By type of holder:

Commercial banks	27	32	31	25	31
Savings and loans	59	62	63	53	51
Mutual savings banks	6	8	8	7	6
Life insurance companies	4	5	9	6	7
FNMA, GNMA and FHLMC	5	-3	-1	7	10
Mortgage pools <u>1/</u>	13	24	23	13	12
Other	22	14	19	21	19

1/ Pools of mortgages backing securities guaranteed by the Government National Mortgage Association, Federal Home Loan Mortgage Corporation, or Farmers Home Administration.

e/ Partially estimated.

guaranteed securities held at the pace of other recent months.^{1/} At S&Ls, seasonally adjusted mortgage commitments outstanding declined for the sixth consecutive month in June to \$31.2 billion (latest data available), although the decline was more moderate than in other recent months as new commitment activity picked up somewhat.^{2/} In view of the further increase in S&L deposit flows in July--and continued heavy borrowing from the FHLBanks^{3/}--it is likely that S&L net mortgage lending last month was moderately above the second quarter average.

Life insurance companies issued new mortgage loan commitments in record volume during the first five months of 1978 (latest data available), raising commitments outstanding to \$18.5 billion--more than 25 per cent above their year-end 1977 level. This commitment activity has been heavily concentrated in the nonresidential sector, despite some expansion of 1- to 4-family and multifamily mortgage commitments. Sustained strength in new commercial construction activity--primarily office buildings, shopping centers, and warehouses--has generated demand for eventual permanent mortgage financing.

^{1/} Issues of privately-insured pass-through securities backed by pools of conventional mortgages, which totaled about \$450 million during the March-May period, have tapered off recently.

^{2/} Net mortgage acquisitions by S&Ls also recovered moderately in June, due in large part to a reduction in loan sales.

^{3/} Borrowing from the FHLBanks in July was \$1.0 billion, down slightly from \$1.3 billion in June.

CONSUMER INSTALMENT CREDIT^{1/}

	1975	1976	1977	1978			
				Q1	Q2	May	June
Total							
Change in outstandings							
Billions of dollars	7.4	20.0	30.8	36.6	45.5	46.3	45.5
Per Cent	4.7	12.3	16.9	17.2	20.4	20.5	19.8
Bank share (per cent)	39.4	53.9	50.8	48.3	51.4	48.8	51.7
Extensions							
Billions of dollars	163.9	192.4	226.0	245.4	268.5	268.0	272.1
Bank share (per cent)	47.2	48.9	49.1	49.1	49.8	49.3	50.0
Liquidations							
Billions of dollars	156.6	172.4	195.3	208.8	223.1	221.7	226.7
Ratio to disposable income	14.4	14.5	15.0	15.0	15.6	15.5	15.7
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.2	15.2	20.2	21.5	18.5
Per cent	6.1	18.3	20.1	19.2	24.4	25.4	21.4
Extensions							
Billions of dollars	51.5	62.8	73.1	77.9	87.5	88.6	86.9

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

n.a.--not available.

Federal backstop support of the residential mortgage markets has been substantial recently. Commitments outstanding to purchase mortgages at the major Federal and related agencies operating in the secondary mortgage markets--FNMA, GNMA, and FHLMC--were \$18 billion at the end of June, compared with \$10 billion at the end of 1977. The bulk of this increase has been due to issuance by FNMA of nearly \$15 billion of 4- and 12-month optional delivery commitments, primarily to mortgage companies.

Consumer Finances

Consumer instalment credit grew at an annual rate of slightly more than 20 per cent during June and the second quarter as a whole, bolstered by vigorous expansion in auto credit. Commercial banks accounted for almost half the total second quarter advance, and the figures for weekly reporting banks suggest that instalment credit growth remained strong in July.

The continued expansion of consumer and home mortgage debt raised the aggregate debt burden of households--measured by the ratio of repayments to disposable personal income--to a new high in the second quarter, based on revised estimates. Meanwhile, the liquid financial net worth of households,^{1/} expressed in real per capita terms, turned down in the second quarter, resuming the general decline begun in the third quarter of 1976.

1/ Household sector holdings of deposits and securities, less debts owed.

Despite the movements in these financial ratios, direct measures of payment difficulties have shown little sign of deterioration. In fact, delinquency rates for both finance company auto loans and mortgage loans at savings and loan associations are reported to have drifted down during the second quarter, from already low levels, and personal bankruptcies fell to the lowest pace in five years. In this regard, it should also be noted that the aggregate debt burden ratios have been affected by demographic and other factors increasing the diffusion of debt among households. For example, a rise in the proportion of the population aged 25 to 34 years--normally the group with the highest incidence of debt--has contributed to the upward trend in the aggregate debt ratios.

August 9, 1978

U.S. International Transactions
(in millions of dollars; receipts, or increase in liabilities, +)

	1976		1977		1978		
	Year	Year	Q4	Q1	Q2	May	June
1. <u>Trade balance</u> ^{1/}	-9,353	-31,059	-10,170	-11,201	-7,964	-2,707	-2,139
2. Merchandise exports	114,694	120,585	29,457	30,664	35,014	11,550	11,995
3. Merchandise imports	-124,047	-151,644	-39,627	-41,865	-42,978	-14,257	-14,134
4. <u>Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)</u>	-9,935	-3,907	5,142	-6,031	3,418	-2,267	174
Through interbank transactions with							
5. a) Own offices in foreign countries	-6,282	-2,717	-5,545	-3,346	4/	-4,132	5,606
6. b) Unaffiliated banking offices in foreign countries	-3,220	-2,203	-147	-2,369	4/	1,224	-3,124
Through nonbank transactions							
7. a) Claims on nonbanks in foreign countries (increase,-)	-3,142	-423	-487	-180	4/	-87	-2,348
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	2,709	1,436	1,037	-136	4/	728	40
9. <u>Private securities transactions, net</u>	-4,697	-1,859	-225	900	1,034	909	39
10. Foreign net purchases of U.S. corp. bonds	397	1,549	223	83	173	22	169
11. Foreign net purchases of U.S. corp. stocks	853	1,385	580	341	1,016	347	52
12. Foreign net purchases of U.S. Treasury securities	2,783	569	-297	881	915	592	484
13. U.S. net purchases (-) of foreign securities	-8,730	-5,362	-731	-405	-1,070	-52	-666
14. <u>Change in foreign official reserve assets in U.S. (increase +)</u>	13,091	35,406	15,152	14,899	-6,247	-1,902	-777
By Area							
15. G-10 countries and Switzerland	3,922	28,471	14,201	12,094	n.a.	n.a.	n.a.
16. OPEC	6,802	5,989	757	1,354	n.a.	n.a.	n.a.
17. All other countries	2,367	946	194	1,451	n.a.	n.a.	n.a.
By Type							
18. U.S. Treasury securities	9,315	30,218	12,900	12,964	-5,894	-2,002	-444
19. Other ^{2/}	3,776	5,188	2,252	1,935	-353	100	-333
20. <u>Change in U.S. reserve assets (increase -)</u>	-2,532	-237	-2	246	342	-159	114
21. <u>All other transactions and statistical discrepancy</u>	13,426	1,656	387	1,187	9,417	6,126	2,589
MEMO:							
Current account ^{3/}	4,339	-15,221	-6,934	-6,954	n.a.	n.a.	n.a.

^{1/} International accounts basis, seasonally adjusted.

^{2/} Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.

^{3/} Seasonally adjusted.

^{4/} Data not shown separately because of break in series.

updated monthly

T-3-AI

INTERNATIONAL DEVELOPMENTS

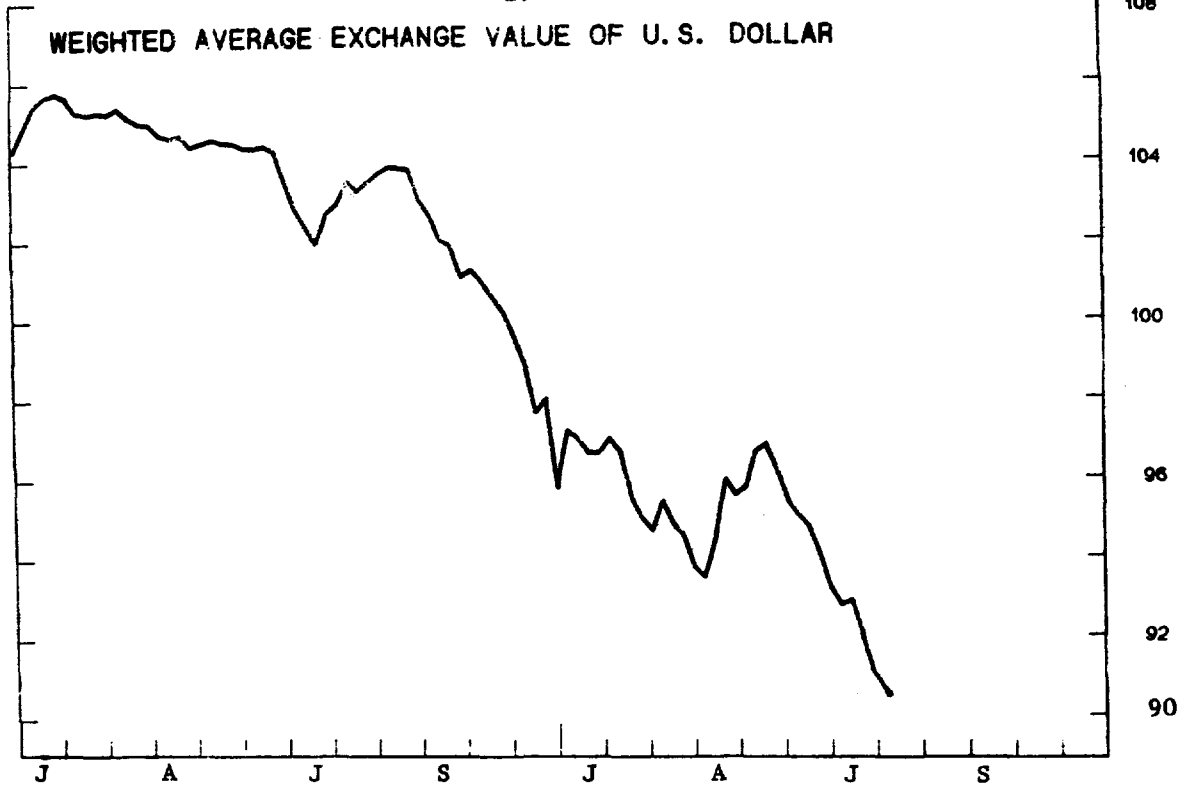
Foreign exchange markets. Exchange markets have become increasingly nervous and unsettled in the past four weeks. Rates have been volatile and have changed widely on very little news. There was a significant shift in the general pattern of exchange rates as the results of the Bremen summit meeting on July 17 did not change the market's view that major differences in inflation rates and trade balances would persist for some time.

Market attention was initially on the Japanese yen which began to appreciate sharply, following the release of the Japanese trade figures for June, which showed a continuing large surplus. In late July the yen moved below 200 yen/dollar, and for several days gained nearly one per cent per day,

As uncertainties increased and rumors of a possible tightening of capital controls intensified, movements in the yen became more erratic. Compared with four weeks earlier, the yen is currently 8-3/4 per cent higher against the dollar and about 6-1/2 per cent higher on a weighted-average basis.

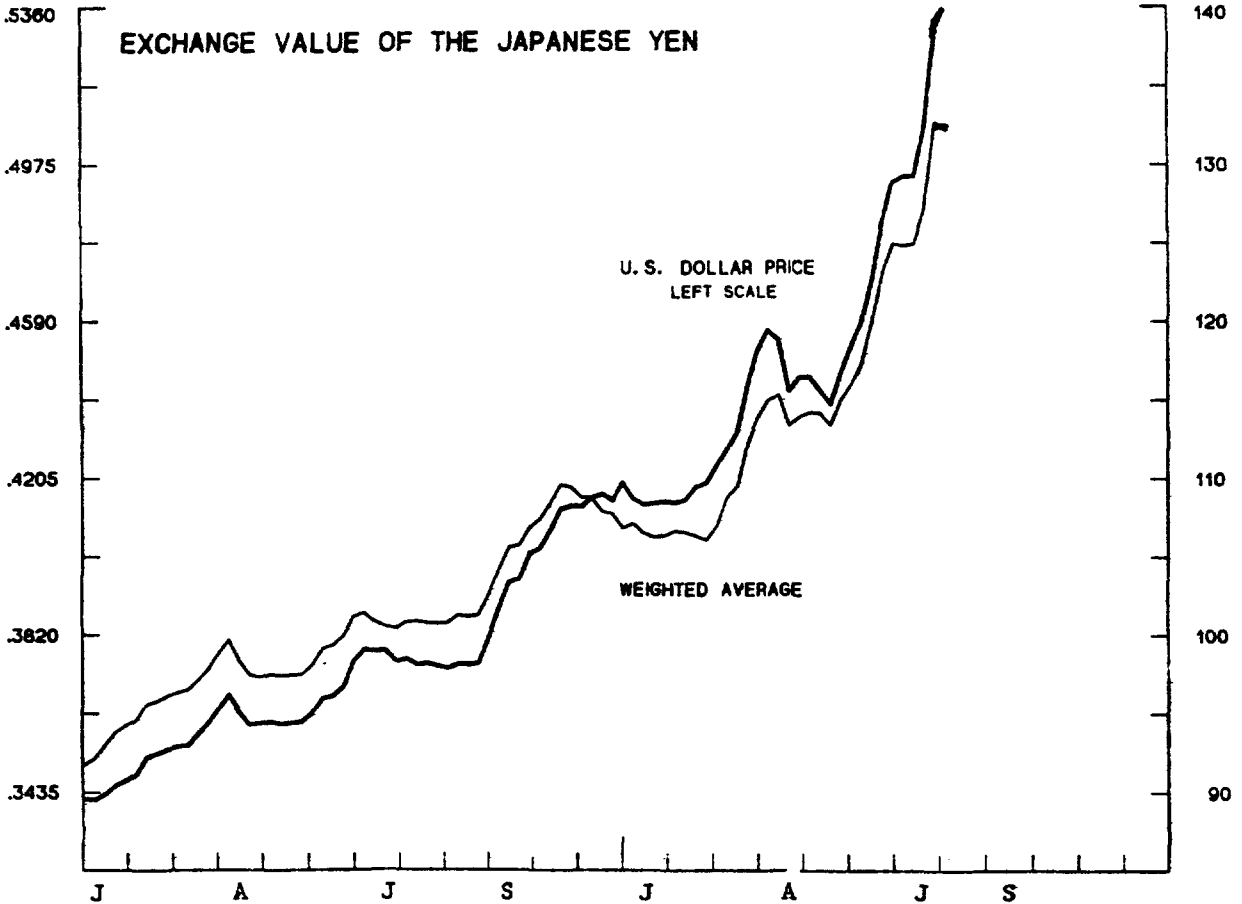
Following a statement by a Swiss official that exchange rate adjustments are to be expected when countries have large differences in inflation rates, the Swiss franc also began to advance sharply. In the past four weeks it too has risen more than 8-1/2 per cent against the dollar and more than 5-1/2 per cent on a weighted-average basis. Other European currencies also strengthened against the dollar but not uniformly. Throughout July, the French franc, Italian lira, and British pound appreciated

MARCH 1973=100



CENTS PER YEN

MARCH 1973=100



against both the snake and the dollar as the market interpreted the commitment at Bremen for closer monetary union as reducing the downside risk on the traditionally weaker currencies. Even within the snake, exchange rate pressures developed and the Belgian franc was kept within the margins

. In the second week of August, however, the mark began to move sharply, going below 2 marks/dollar, and the snake regained some of its relative position. The Canadian dollar was the only currency to weaken noticeably against the U.S. dollar, falling nearly 1 per cent. As a result of the movements in various rates, the weighted-average value of the dollar in early August was about 3-3/4 per cent below its level a month earlier.

The Desk acquired over \$600 million of marks for use in swap repayments. Between July 12 and August 8, the System repaid nearly \$370 million equivalent of marks and the ESF repaid more than \$250 million

equivalent. On several occasions, the Desk intervened in support of the dollar;

. On August 8, however, pressure on the dollar against the mark intensified; the United States once again drew on its swap line with the Bundesbank. The System drew \$38.5 million equivalent, bringing its outstanding swap commitments to \$603 million equivalent; the ESF's drawings brought its commitment to \$163 million equivalent.

Exchange market uncertainties spilled over into the gold market, and gold rose above \$200 per ounce. As of August 9, the gold price in London was \$208.00.

International capital markets. Gross new borrowing in international capital markets in the second quarter of 1978 approximated the very high level reached in the first quarter. Consequently, for the first half of this year total borrowing exceeded the level of the second half of 1977 by almost 30 per cent (mostly because of increased bank credits), and the first half of 1977 by over 40 per cent. Some of the increase reflects refinancing of maturing or existing credits but most appears to be new financing. The second quarter of 1978 saw some reduction from the previous three months in medium-term Euro-credits despite a record-size credit for Canada. Loan spreads fell further and maturities continued to lengthen. The volume of new Euro-bonds recovered in the second quarter despite a five-week prohibition on German mark issues and renewed depreciation of the U.S. dollar. Foreign bond issues also increased as placements in Japan recorded another large rise.

New medium-term Euro-credits completed in the second quarter amounted to \$13 billion, about 10 per cent below the first quarter. In June the Canadian Government signed an agreement for a \$3 billion 8-year revolving Euro-credit from a group of predominantly U.S. banks. Although the loan was partly syndicated among non-U.S. banks the interest rate will be equal to the U.S. prime rate for the first four years and 1/4 per cent over prime after that. This feature is a departure from normal Euro-market practice. As of the end of July \$700 million of the credit had been drawn. Other developed countries that increased their borrowing in the second quarter were Italy and the United Kingdom, including a Shell Petroleum borrowing of \$800 million (a record for a

Borrowing in International Capital Markets
(in billions of dollars)

	1976	1977		1978		
	Year	Year	2nd H	1st H	Q-1	Q-2
I. Medium-term Euro-credits: total ^{1/}	28.7	34.1	18.8	27.5	14.6	13.0
Developed countries	10.9	13.4	6.3	12.0	5.1	6.9
Canada	.9	.5	.2	4.3	1.3	3.0
France	.7	1.9	.4	1.1	1.1	.0
Italy	*/	.8	.7	1.0	.4	.7
Spain	2.0	1.9	1.2	.7	.5	.3
United Kingdom	2.2	2.5	.5	1.0	.2	.9
Other	5.1	5.8	3.3	3.7	1.6	2.0
Oil-exporting countries	3.7	6.0	3.0	6.1	3.8	2.2
Algeria	.7	.4	.4	1.0	.2	.8
Indonesia	.5	.1	.1	1.1	.7	.4
Iran	.9	1.8	.9	.7	.2	.5
Nigeria	.0	.0	.0	1.0	1.0	.0
Venezuela	1.1	1.7	.4	1.6	1.5	.1
Other	.5	2.0	1.2	.7	.2	.4
Non-oil LDCs	11.0	11.3	7.2	7.4	4.0	3.4
Argentina	.9	.8	.5	.5	.2	.3
Brazil	3.3	2.3	1.6	1.7	.9	.8
Mexico	2.1	2.9	2.3	.9	.4	.5
Philippines	.9	.7	.4	.8	.3	.5
Other	3.8	4.6	2.4	3.5	2.2	1.3
Communist countries	2.5	3.1	2.1	1.9	1.6	.4
Int'l. org's. and others	.8	.3	.2	.2	*/	.1
II. Euro-bonds: total	15.4	19.3	8.9	9.1	4.3	4.8
By borrower: LDCs	1.0	2.3	1.2	1.5	1.0	.5
all other	14.4	17.0	7.7	7.9	3.3	4.6
By currency: U.S. dollar	10.0	12.3	5.4	4.5	2.0	2.5
German mark	2.8	5.1	2.8	3.5	1.8	1.7
Other	1.6	1.9	.7	1.1	.5	.6
III. Foreign Bonds: total	18.9	15.6	8.5	10.0	4.7	5.3
By borrower: Canada	6.1	3.3	1.7	2.2	1.3	.9
Others	12.8	12.3	6.8	7.8	3.4	4.4
By market: U.S. ^{2/}	10.6	7.5	3.8	3.8	1.7	2.1
Switzerland	5.4	4.7	2.6	2.6	1.6	1.0
Japan	.3	1.4	1.3	2.4	.9	1.5
Other	2.6	2.0	.8	1.2	.5	.7
IV. Total Borrowing	63.0	69.0	36.2	46.6	23.6	23.1

^{1/} Completed credits of over one-year maturity.

^{2/} Figures may differ from statistics of U.S. international transactions, which are on a drawdowns basis.

*/ Less than \$50 million

Source: World Bank.

private company) for 10 years. Italian borrowers, out of the market almost entirely for three years, began to return in late 1977 as Italy's credit standing improved, and in the first half of 1978 have completed \$1 billion of Euro-credits. In contrast, there were no French borrowings in the second quarter (reflecting a reduced deficit in France's current account), Spain, Denmark and Sweden borrowed less, and there were smaller takings from the market by the oil-exporting countries, the non-oil LDCs, and Communist countries. For the first half of 1978 borrowing by non-oil LDCs shows a modest increase over the second half of 1977 despite a sharp decline in new credits to Mexico.

The second-quarter decline in spreads on Euro-credits seems to have been smaller than in the previous several quarters and more centered on borrowers of less than top quality. The "prime spread" seems to have held at about 5/8 per cent over LIBOR. To take advantage of lower spreads, the Philippines borrowed \$500 million and Malaysia \$100 million in the second quarter partly or wholly to refinance existing credits on better terms; these followed first-quarter loans to Indonesia and Malaysia (totalling \$900 million) arranged for the same purpose. New loans in a 20-country sample show the average final maturity rising to 9 years in the second quarter of 1978 compared with 8 years in the first quarter and 6.6 years in the third quarter of 1977 before the present lengthening of maturities began.

New Euro-bond issues rose over 10 per cent in the second quarter, to a rate somewhat higher than in the second half of last year. The volume of new U.S. dollar issues increased 25 per cent, almost as much as the first quarter decline, in spite of the renewed decline in

the exchange rate of the dollar in June. Flotations of German mark issues were slightly lower for the quarter as a whole than in the first quarter. To mitigate upward pressure on German bond yields the German authorities prohibited further DM issues by nonresidents beginning May 12, but lifted the ban on June 20 as official efforts to counter the rise in domestic bond yields were abandoned. In the Euro-bond market yields on most categories of dollar- and mark-denominated bonds rose 10 to 20 basis points from end-March to end-June.

The percentage of total Euro-bond issues denominated in dollars rose from 47 per cent in the first quarter to 52 per cent in the second while the percentage for DM-denominated bonds fell from 41 per cent to 36 per cent. Even so, the dollar-bond share was considerably lower, and DM-bond share higher, than was customary until late 1977. The dollar-bond share averaged 60 per cent in 1974-76 and 68 per cent in the first three quarters of 1977 before falling to 50 per cent in the last quarter as the exchange rate of the dollar fell. The DM-bond share, which averaged 20 per cent in 1974-76, was 22 per cent in the first three quarters of last year but rose to 39 per cent in the fourth quarter.

Foreign bond issues were also up more than 10 per cent in the second quarter despite a reduction in Canadian borrowing. Issues in the U.S. market increased and included \$350 million of British Government 8- and 15-year bonds in April. Issues in Japan increased again, by nearly two-thirds, and were second in volume only to issues in the U.S. market. However, a weakening in Japanese bond prices has led to the postponement of several foreign yen issues scheduled for the third quarter.

U.S. International transactions. Information on second-quarter capital transactions in the U.S. international accounts is incomplete and may be subject to more revisions than usual because of a series of data problem related in part, to the recent introduction of a new reporting system.

Capital transactions. Available data indicate that net private capital flows through banks appear to have registered a sizable inflow in the second quarter, and net foreign purchases (private and official) of U.S. corporate stock rose to \$1.3 billion in the quarter.

Foreign official assets in the United States (excluding OPEC holdings) dropped by about \$4 billion in the second quarter; OPEC net investments in the United States declined by \$2 billion.

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

	1977		1978			
	Year	Q-4	Q-1	Q-2	May	June
1. Trade balance <u>1/</u>	-31.1	-10.2	-11.2	-8.0	-2.7	-2.1
2. (annual rate)		(-40.7)	(-44.8)	(-31.9)	(-32.5)	(-25.7)
3. Private capital trans. adj. <u>2/</u>	-6.6	-3.3	-8.0	5.0	1.4	-1.1
4. Private capital as rept. net	-6.6	-5.8	-6.2	4.5	-1.4	.2
5. Reporting bias <u>3/</u>	--	2.5	-1.8	.5	2.8	-1.3
6. OPEC net investments in U.S.	6.0	.8	1.4	-6.2	-1.9	-.8
7. Other foreign official assets	29.4	14.4	13.5			
8. U.S. reserve assets	-.2	*	.2	.3	-.2	.1
All other <u>4/</u>	2.5	-1.7	4.1	8.9	3.3	3.9
9. Not seasonally adjusted	2.5	-2.8	4.0	8.4	2.8	4.3
10. Seasonal component <u>5/</u>	--	1.1	.1	.5	.5	-.4
Memorandum:						
11. GNP net exports of goods and services	-10.9	-4.7	-6.0	-3.5	n.a.	n.a.
12. Current account balance	-15.2	-6.9	-7.0	n.a.	n.a.	n.a.

1/ Seasonally adjusted.

2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.

3/ Adjustment for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.

4/ Includes service transactions unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.

5/ Equal but opposite in sign to the seasonal component of the trade balance.

* Less than \$50 million.

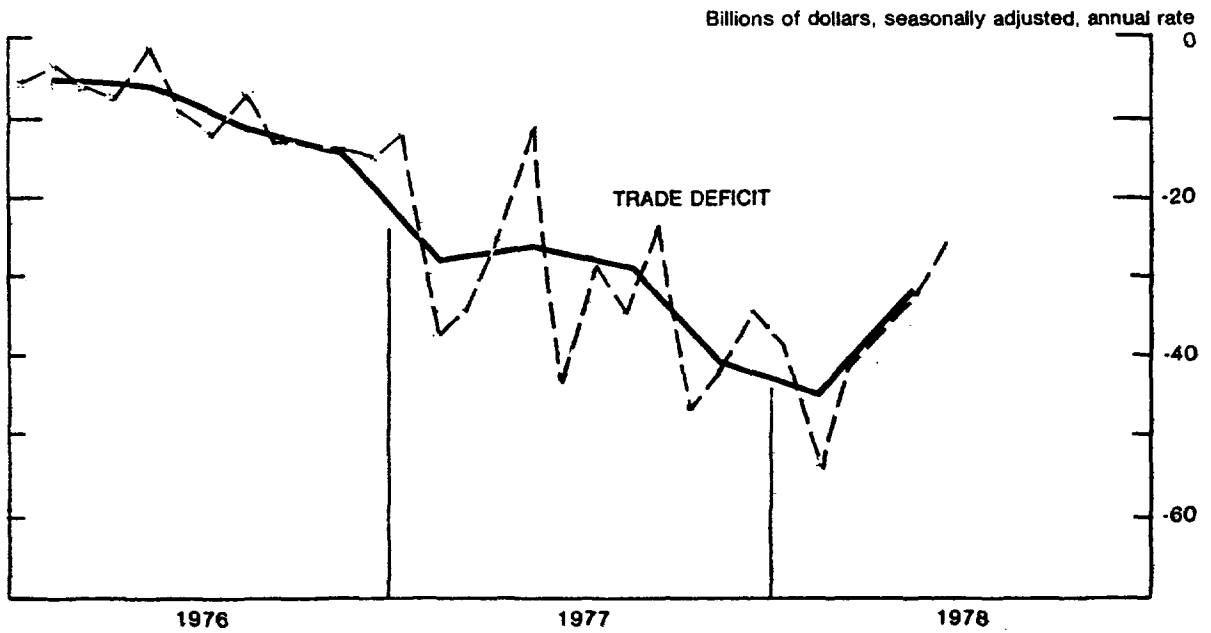
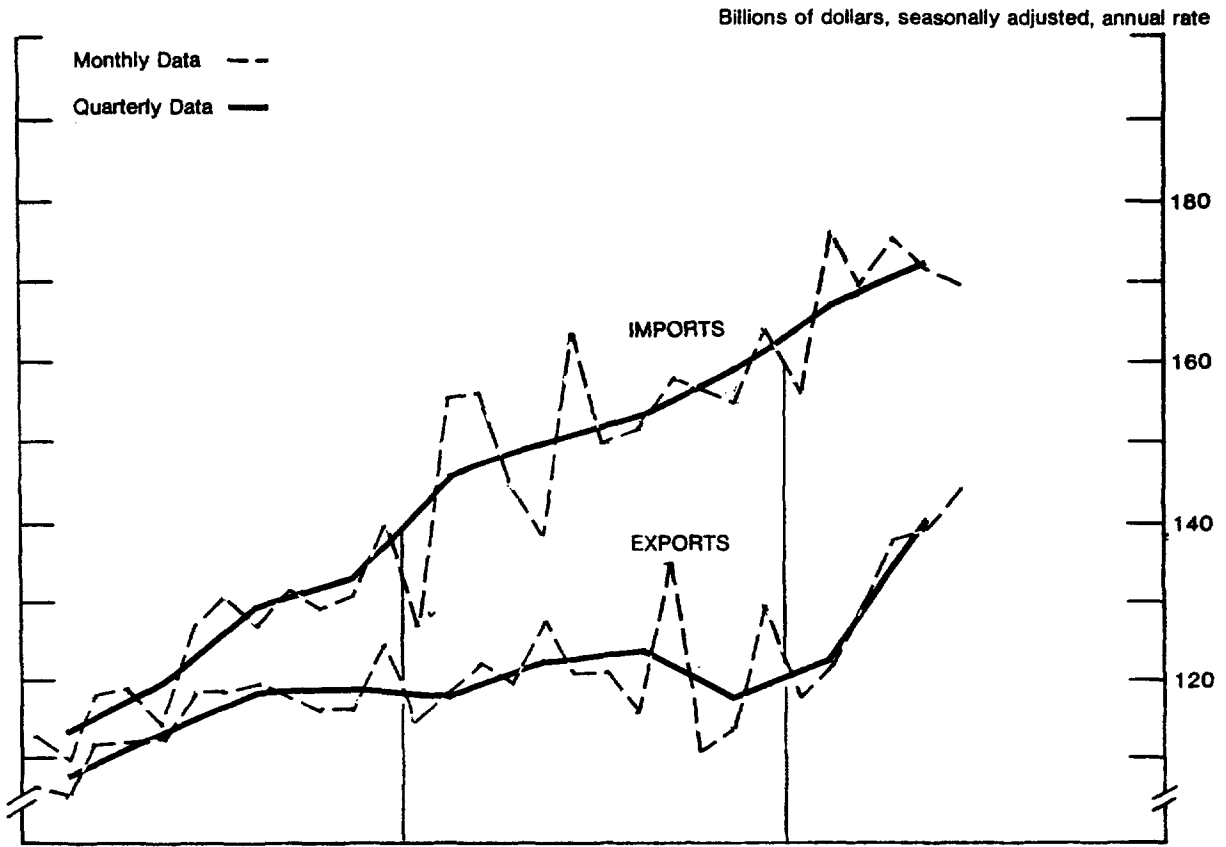
U.S. merchandise trade. In June, the U.S. trade deficit was smaller than in any other month this year by a substantial margin. This reduced the second quarter deficit to \$32 billion at an annual rate, international accounts basis, compared with a \$45 billion annual rate deficit in the first quarter. Most of the change between quarters was generated by a strong increase in exports, while imports rose only moderately. (See chart following.)

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

	1977 <u>Year</u>	1 9 7 8			
		<u>Q1</u>	<u>Q2</u>	<u>May</u>	<u>June</u>
<u>EXPORTS</u>	<u>120.6</u>	<u>122.7</u>	<u>140.1</u>	<u>138.6</u>	<u>143.9</u>
Agricult.	24.4	26.1	32.0	33.0	32.8
Nonagric.	96.2	96.6	108.0	105.6	111.1
<u>IMPORTS</u>	<u>151.7</u>	<u>167.5</u>	<u>171.9</u>	<u>171.1</u>	<u>169.6</u>
Petroleum	45.0	39.8	43.2	42.0	41.2
Nonpetrol.	106.7	127.7	128.7	129.1	128.4
<u>BALANCE</u>	<u>-31.1</u>	<u>-44.8</u>	<u>-31.9</u>	<u>-32.5</u>	<u>-25.7</u>

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

U.S. Merchandise Trade International Accounts Basis



Agricultural exports increased by 22 per cent in the second quarter with most of the increase in volume; agricultural export prices rose by 7 per cent on average. The largest increases were in corn, soybeans, and wheat. While agricultural exports to all areas increased, the sharpest increases were in shipments to Eastern Europe and the developing countries. Smaller harvests than had been expected in the Southern Hemisphere contributed to increased demands for U.S. supplies.

Nonagricultural exports increased by 12 per cent in the second quarter, nearly all in volume; prices increased by less than 2 per cent. The increase in the second quarter was the first substantial rise in these exports in more than a year. Part of the pick-up was a recovery of coal exports from strike-depressed first quarter levels. But the largest part of the increase was in machinery exports and a broad range of other commodities. The sharp rise in machinery exports went to both the developed and the developing countries.

Oil imports were higher in the second quarter than in the first quarter, but much of the rise can be attributed to an unusually low figure that was recorded in March and an unusually high figure that was recorded in April. Using an average of these two months in both quarters, oil imports in both the first and

second quarters were about 8.5 million barrels per day. For comparison purposes, during the second half of 1977 oil was imported at a rate of 9.0 million barrels per day. Domestic stocks of oil were drawn down sharply, primarily during the first quarter, from the unusually high levels of late last year. In the second quarter, there were only moderate changes in stock levels. The price of imported oil has averaged about \$13.25 per barrel since early this year.

Non-oil imports increased only moderately in the second quarter. Price increases more than accounted for the rise, as the volume of imports declined from the high levels reached in the first quarter. As expected, the strong build-up in some commodities earlier in the year was reversed in recent months. The volume of steel imports dropped off sharply in both May and June, more than offsetting a fairly substantial price increase (23 per cent from April to June); May and June were the first months the Treasury's trigger-price mechanism was effectively in operation. While showing a small increase for the quarter, foreign car imports declined in both May and June. Current levels of inventories are at record high levels and may restrain imports, particularly since sales have slowed. Retail prices of foreign cars have risen faster than

prices of U.S. small cars (an average of about 15 per cent compared with an average of about 10 per cent.) Another large decline was in coffee imports; since the end of last year, import prices for coffee have dropped 12 per cent and the volume has declined 7 per cent. These declines partly offset increases in other commodity categories, particularly in other industrial supplies, consumer goods, and capital goods.

Foreign Economic Developments. Recent economic developments in foreign countries show: (1) indications of slowing domestic demand, notably in Germany and Japan; (2) a halt in the moderating trend of price increases in many countries during the second quarter; and (3) continued growth of the Japanese and German current-account surpluses. Signs of weakness in several countries during the second quarter, following some improvement earlier from sluggish 1977 growth rates, formed the background for pledges to take expansionary action during the Bonn Summit meeting on July 17.

Industrial production in Germany declined by nearly 1 per cent during the second quarter of 1978, continuing the weakening trend observed in the first quarter. Production of investment goods, which had declined in the first quarter, fell even further in the second. Japanese industrial production fell in June -- the first decline in eight months -- and rose only 1.5 per cent in the second quarter after a 3 per cent first quarter increase. Domestic demand grew only 0.4 per cent in the first quarter of 1978, in spite of support from increased government expenditures, and there are signs that it may be weakening further. Italian industrial production fell in the second quarter, and Canadian, French, and British industrial production fell in May (the latest month for which data are available).

Rates of consumer price increase rose slightly in the second quarter of 1978 in all of the larger foreign industrial countries except Germany. To combat these increases, the Italian government is preparing a three-year plan including budgetary measures and programs to cut labor

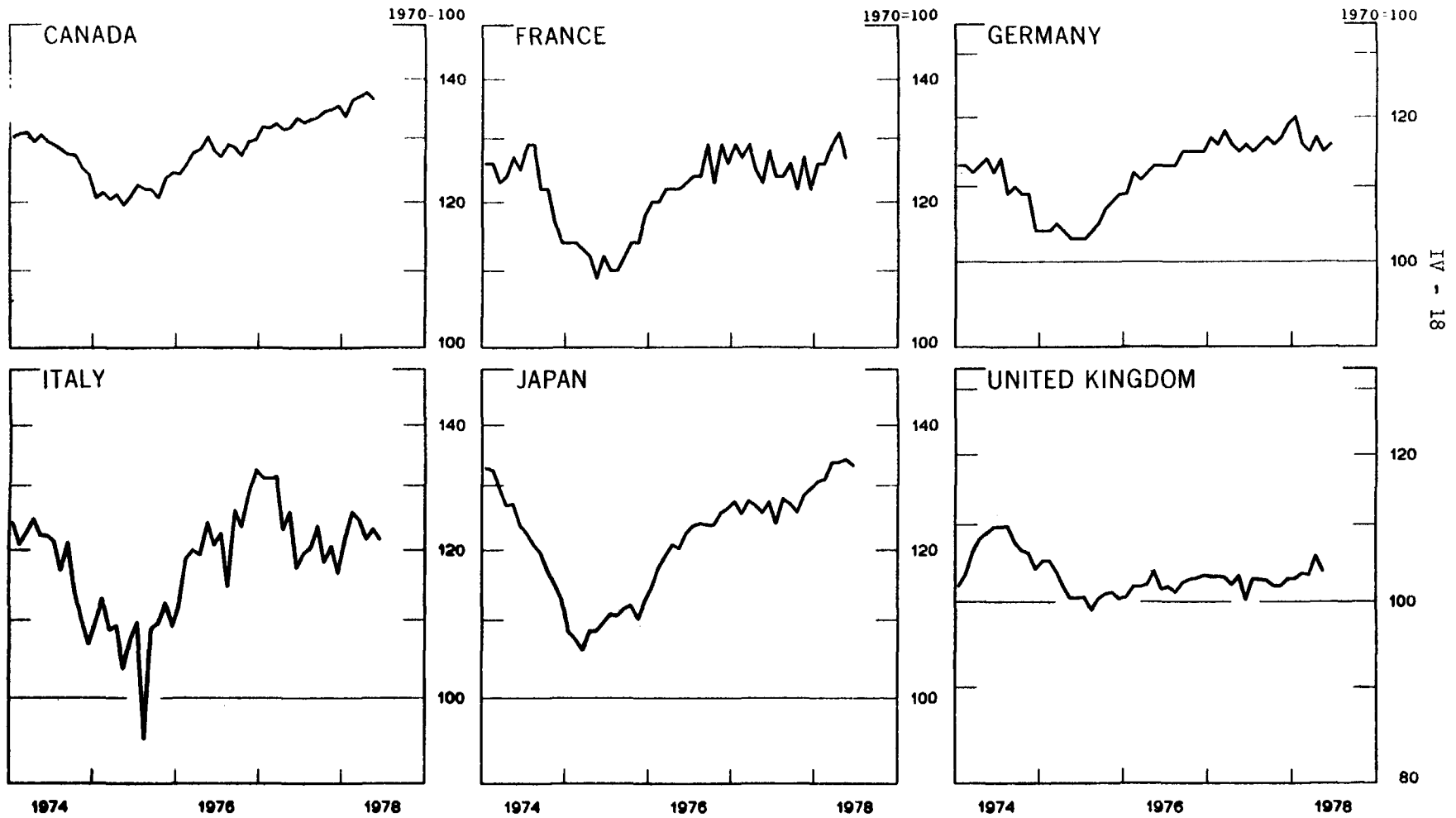
costs, and the United Kingdom adopted a new government wage policy calling for a 5 per cent limit on wage increases over the next 12 months. Rates of consumer price increase declined during the second quarter of 1978 in most of the smaller industrial countries.

The \$2.3 billion Japanese current-account surplus in June was the highest monthly surplus of the year, and indications are that the July surplus may be at least as large. The total surplus for the first half of 1978 was \$10.5 billion, nearly equal to the \$11 billion total for all of 1977. The German current-account surplus in June was \$1.1 billion, bringing the total surplus for the first half of 1978 to \$3.8 billion, nearly equal to the \$3.9 billion surplus for all of 1977. In Japan, the rising current-account surplus reflects a rising trade surplus, chiefly attributable to large increases in export prices in dollar terms. In Germany, on the other hand, the rising current-account surplus reflects both a rising trade surplus and a shrinking invisibles deficit. German export volumes are expected to grow roughly in line with the growth of world trade in 1978, but Japanese export volumes have declined in recent months.

In the Bonn Summit declaration of July 17, Japan promised an attempt to speed up domestic demand in order to attain 7 per cent real GNP growth in the current fiscal year, while holding exports to their level of the last fiscal year. The German government pledged to propose stimulatory fiscal policy measures totalling about 1 per cent of GNP to the legislature this month. The French pledged to increase their budget deficit for 1978 by 1/2 per cent of GNP. Italy pledged to try to

INDUSTRIAL PRODUCTION FOR MAJOR FOREIGN COUNTRIES

RATIO SCALE, SEASONALLY ADJUSTED, MONTHLY



achieve a real GNP growth rate in 1979 1-1/2 per cent above the 1978 growth rate, while cutting public expenditure and raising taxes.

Canada and the United Kingdom, countries which expect higher growth rates in 1979, pledged to continue to fight inflation.

The Canadian, Belgian, and Dutch central banks raised their discount rates during the last week of July in response to foreign exchange market pressures. Denmark and Sweden cut their discount rates, reflecting an easing of external pressures.

Notes on Individual Countries. Domestic economic activity in Germany continued to weaken in the second quarter of 1978. Industrial production fell by nearly 1 per cent from the preceding quarter, reflecting declining activity in all domestic industries except construction, with the most severe declines in investment goods industries. Both domestic and foreign orders stagnated in the second quarter. Consumer price increases continued to moderate during the second quarter, with prices reaching a level of about 2-1/2 per cent above the previous year; the CPI was unchanged in July.

In response to growing indications of weakness in domestic demand (and in fulfillment of its Bonn Summit commitment), the German Cabinet has proposed stimulatory fiscal policy measures for the 1979 budget. The stimulus package, to be presented to the legislature later this month, includes personal income tax cuts and increased expenditures, whose impact would be partially offset by a rise in the VAT in mid-1979. The German authorities have estimated that these measures will raise the real GNP growth rate by about 1 per cent in 1979.

In Japan, the current-account surplus in June exceeded \$2.3 billion (seasonally adjusted), making it the highest monthly surplus of the year so far. The large June surplus was attributable in part to a sharp decline in oil imports, after a substantial increase in the previous month. Also, recent appreciation of the yen has continued to raise the dollar price of Japanese exports. According to preliminary government reports, the July trade surplus exceeded that in June. The Japanese authorities are reported to be considering additional controls on capital movements.

Inflation in Japan has continued to moderate; both wholesale prices and consumer prices declined in June, the latter for the first time in twelve months. Unemployment remains a serious problem, however, as the unemployment rate increased another 0.1 per cent in May. Prime Minister Fukuda and other key officials have reiterated that Japan will take appropriate measures -- including possible supplementary government expenditure -- to meet the announced 7 per cent target for real GNP growth in FY1978.

Provisional data on consumer spending and retail sales in the United Kingdom indicate that the consumption-led expansion has continued in the second quarter, although at a reduced rate. On July 21, the U.K. government announced its policy on wages for the next 12 months. The policy calls for a limit of 5 per cent on wage increases during the period, with some provision for flexibility for settlements involving a link between increases in wages and increases in labor productivity and other special cases. The policy is nonstatutory and will be enforced primarily through the government's influence in public sector wage increases

and its ability to withhold government contracts and assistance from private sector firms that do not adhere to the policy. The policy is similar to the one in effect during the previous 12-month period except that the wage norm is 5 per cent rather than 10 per cent. The Trades Union Congress has not endorsed the new policy, but it had endorsed only some aspects of last year's policy.

In the first half of 1978, Italy had a (provisional) trade surplus on a customs basis of \$300 million (Italy has not had an annual trade surplus since 1972). In September, the government will present details of a three-year economic plan to parliament. The plan will aim to raise real GNP growth to about 4 per cent next year, while reducing the rate of CPI increase to under 10 per cent per annum by the end of 1979. Public spending cuts, tax increases, and measures to cut labor costs and expand employment will probably be included.

In France, the immediate effects of the government's strategy to cut the budget deficit and to phase out price controls are beginning to be felt through higher inflation. (The strategy is aimed at reducing inflationary pressures in the long run.) Wholesale prices rose at about an 8 per cent annual rate in the first half of 1978, up from 5-1/2 per cent in all of 1977, and the rate of CPI increase rose in the second quarter to an annual rate of nearly 12 per cent.

Industrial production in Canada fell by 0.8 per cent in May. Growth of personal loans continued to be strong so far in the second quarter while business loans continue to be weak, indicating continued trends of moderate growth of personal expenditure and weak investment

expenditure into the second quarter. The merchandise trade account was in deficit in June -- the first monthly deficit since 1976.

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period, seasonally adjusted)

	1975	1976	1977	1977		1978		1978			
				Q3	Q4	Q1	Q2	Mar.	Apr.	May	June
Canda: GNP	1.3	5.5	2.7	0.3	1.5	0.7	n.a.	*	*	*	*
IP	-5.4	5.1	4.0	0.7	1.4	0.6	n.a.	0.5	0.5	-0.8	n.a.
France: GDP	-0.5	5.8	2.0	0.4	0.5	1.8	n.a.	*	*	*	*
IP	-8.9	9.8	1.5	-0.5	-0.8	2.7	n.a.	2.4	1.6	-3.1	n.a.
Germany: GNP	-2.5	5.7	2.4	0.0	1.4	0.1	n.a.	*	*	*	*
IP	-5.5	7.7	3.1	0.3	1.1	-0.3	-0.9	-0.9	1.7	-1.7	0.9
Italy: GDP	-3.5	5.7	1.7	-0.5	-0.1	2.0	n.a.	*	*	*	*
IP	-9.2	12.9	1.1	-0.8	-2.2	4.7	-1.5	-1.0	-2.4	1.4	-1.3
Japan: GNP	2.5	6.2	5.2	0.4	1.1	2.4	n.a.	*	*	*	*
IP	-11.1	11.1	4.2	-0.2	1.2	3.1	1.5	2.1	0.1	0.3	-0.7
United Kingdom: GNP	-2.1	2.4	1.0	0.2	0.1	0.8	n.a.	*	*	*	*
IP	-4.9	0.5	0.3	0.9	-0.5	1.0	n.a.	-0.2	2.4	-1.9	n.a.
United States: GNP	-1.3	5.7	4.9	1.4	0.8	0.0	1.8	*	*	*	*
IP	-8.9	10.1	5.6	1.1	0.6	0.2	2.9	1.2	1.5	0.6	0.3

*GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

				Latest 3 Months from:								
				1977		1978		Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month		
				Q3	Q4	Q1	Q2					
		1975	1976	1977								
Canada:	CPI	10.8	7.5	8.0	2.2	2.2	1.8	2.4	10.1	8.9	June	
	WPI	6.5	4.3	9.1	0.9	1.1	2.6	n.a.	12.2	7.0	July	
France:	CPI	11.7	9.6	9.5	2.4	1.9	1.6	2.9	11.9	9.0	June	
	WPI	-5.7	7.4	5.6	-0.9	0.0	1.2	2.1	8.5	2.3	June	
Germany:	CPI	5.9	4.6	3.9	0.2	0.2	1.3	0.9	2.8	2.6	July	
	WPI	3.4	5.8	1.8	-1.8	-0.9	1.0	0.3	1.3	-1.4	June	
Italy:	CPI	16.9	16.8	18.4	2.5	3.3	2.6	3.0	11.6	12.0	July	
	WPI	8.5	22.9	17.4	1.5	2.0	2.1	2.3	9.6	8.2	June	
Japan:	CPI	12.1	9.7	8.3	0.3	0.8	0.9	2.0	5.2	4.3	July	
	WPI	3.0	5.0	1.9	-0.5	-0.7	-0.5	-0.3	-1.4	-2.1	June	
United Kingdom:	CPI	24.2	16.6	15.8	1.6	1.5	1.7	2.7	11.4	7.7	June	
	WPI	24.1	16.4	19.2	3.3	1.6	2.5	2.0	8.2	9.1	July	
United States:	CPI	9.1	5.7	6.5	1.5	1.1	1.7	2.6	10.8	7.0	June	
	WPI	9.2	4.6	6.1	0.2	1.1	2.4	3.0	12.4	6.8	June	

Trade and Current-Account Balances of Major Industrial Countries^{a/}
(billions of U.S. dollars; seasonally adjusted)

	1975	1976	1977	1977				1978		1978		
				Q1	Q2	Q3	Q4	Q1	Q2	Apr.	May	June
Canada: Trade	-0.6	1.2	2.7	0.8	0.3	0.6	1.0	1.2	0.3	0.1	0.3	-0.1
Current Account	-4.7	-3.9	-3.9	-0.8	-1.2	-1.2	-0.7	-0.6	n.a.	*	*	*
France: Trade	1.5	-4.2	-2.4	-1.1	-0.6	-0.5	-0.2	-0.2	0.5	0.2	0.0	0.3
Current Account	0.0	-6.0	-3.3	-1.3	-0.8	-0.8	-0.3	-0.2	n.a.	*	*	*
Germany: Trade	15.3	13.5	16.5	3.7	4.2	3.7	4.8	4.3	5.0	1.6	1.4	2.0
Current Account ^{b/}	4.1	3.9	3.9	0.9	1.1	-2.0	3.8	1.6	2.2	0.8	0.4	1.1
Italy: Trade	-3.5	-6.7	-2.5	-1.4	-0.8	0.1	-0.4	-0.2	0.5	0.3	-0.2	0.4
Current Account ^{b/}	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.	n.a.	n.a.	*	*	*
Japan: Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	7.4	6.9	1.8	2.1	3.0
Current Account	-0.7	3.7	11.0	2.3	2.8	2.7	3.1	5.5	5.0	1.3	1.4	2.3
United Kingdom: Trade	-7.1	-6.3	-2.9	-1.7	-1.2	-0.1	0.1	-1.0	-0.2	0.4	-0.4	-0.2
Current Account	-3.7	-2.0	0.3	-0.8	-0.6	0.9	0.9	-0.6	0.4	0.6	-0.2	0.0
United States: Trade	9.0	-9.4	-31.1	-7.0	-6.6	-7.3	-10.2	-11.2	-8.0	-3.1	-2.7	-2.1
Current Account	18.4	4.3	-15.2	-2.7	-2.7	-2.9	-6.9	-7.0	-4.3	*	*	*

^{a/} The current account includes goods, services, and private and official transfers.

^{b/} Not seasonally adjusted.

* Comparable monthly current-account data are not published.

APPENDIX A*
JULY 1978 REVISION OF NATIONAL INCOME AND PRODUCT ACCOUNTS^{1/}

The annual revision to the National Income and Product Accounts (NIPA) left the overall contour of activity during the years 1975-77 essentially unchanged. The decline in the 1973-75 recession is now shown to have been a bit less than earlier reported (but remains the steepest in the postwar period) and the subsequent recovery has also been less vigorous than previously thought. The pattern of quarterly changes in real gross national product are a bit smoother than earlier reported (see Table I) and the composition of output is estimated to be somewhat different. Additionally, the revised estimates indicate that there was more personal and less business saving in 1975 and 1976 and less of both in 1977 than earlier indicated. Finally, the government sector as a whole is now shown to have had a slightly lower deficit over the three year period covered by the revision.

Summary

Gross national product (GNP) in real terms is estimated to have increased by 5.7 per cent in 1976 rather than by 6.0 per cent as earlier reported; the changes in 1975 and 1977 are the same as previously indicated (-1.3 per cent and +4.9 per cent, respectively). Quarterly changes in real GNP have been revised downward in eight of the thirteen quarters covered. By 1978-I real GNP is now estimated to have risen 15.6 per cent from the 1975-I trough as opposed to 16.3 per cent indicated earlier (the contraction is now estimated to have been 5.7 per cent rather than 5.9 per cent). The relatively slower recovery reflected downward revisions in real consumer and government spending which were not wholly offset by upward revisions in real business fixed investment. In current dollar terms, the level of GNP was reduced by about \$6-1/2 billion in 1976 and \$2-1/2 billion in 1977. In general the three year revisions in aggregate GNP price indexes were not large, although there is now an indication of about a half point more inflation in 1977 than earlier thought.

^{1/}This revision covers the period 1975 QI through 1978 QI. New source data which were not available at the time of the earlier estimates are incorporated and seasonal factors are updated in the annual July revision.

* Prepared by James D. August, Economist, National Income Section, Division of Research and Statistics.

Highlights of this revision by sector of activity are as follows:

- 1) Business fixed investment was revised upward in all three years with the 1977 level \$5.3 billion higher in nominal terms than earlier indicated; the 1976 and 1977 revisions were about evenly split between structures and equipment.
- 2) Consumer spending in nominal terms was reduced by larger amounts in each of the three years--reaching \$4.7 billion in 1977. The saving rate was increased a bit in both 1975 and 1976 but was unchanged in 1977.
- 3) The rate of inventory accumulation in 1976 and 1977 was over \$2 billion less in current dollars than previously reported.
- 4) Government purchases were a bit lower than had been estimated earlier and the combined Federal and State and local government deficit was revised downward.
- 5) On the income side, personal income was revised downward in both 1976 and 1977, mainly reflecting lower wage and salary disbursements as well as somewhat less rent and interest income; proprietors' income estimates were scaled upward. Corporate profits, both before and after inventory valuation and capital consumption adjustments, were revised downward in 1975 and 1976 and upward in 1977.

Consumer Activity

Personal consumption expenditures (PCE) were revised downward in each of the three years included in this revision. In 1975, the downward revisions were about evenly split between durable goods, nondurable goods and services; in 1976, more than half of the revision came in durable goods and the balance was in services. By major spending category, the revisions show that by the end of 1977 consumers spent more on furniture, gas and oil, fuel oil and coal and transportation than previously estimated; on the other hand less was spent on autos and parts, food, clothing, gas and electricity for household operation, and other services (which includes medical, personal business, recreation and education).

In real terms total PCE is now estimated to have risen a bit more slowly throughout the three year revision period. The recovery in real PCE from the 1975-I trough through 1978-I is now estimated at 15.4 per cent instead of the 16.0 per cent indicated earlier.

Reflecting sharply reduced estimates of wage and salary disbursements as well as lower receipts of rental and interest income, personal income was revised downward by increasingly large amounts beginning in 1976 (see Table III). Offsetting, to some extent, were higher estimates for other labor income, proprietors' income, dividends and transfer payments. The reduction in personal income was muted to some extent by lower estimates of personal tax and nontax payments; this, combined with sizable downward revisions in consumer outlays, resulted in slightly higher saving rates in 1975 and 1976. Nonetheless, the saving rate remains low in comparison to the early seventies and the level of 5.3 per cent in 1978-II remains well below the postwar average of 6.1 per cent.

Business Activity (See Table IV)

Business spending on fixed capital goods was revised sharply upwards throughout the whole period reaching a maximum of \$6.8 billion in 1977-IV and 1978-I. (This is the second consecutive July revision with large upward adjustments in BFI). In the first year and a half of the current revision period, the bulk of the revision was mainly in structures while from 1976-III onward revisions in producers' durable equipment dominated. In real terms BFI was revised upward and is now estimated to have risen by 13.7 per cent between 1975-I and 1978-I rather than by 11.7 per cent. The current BFI recovery is still lower than in all earlier postwar recoveries except that of 1958.

The revisions in nonfarm business inventory investment, in current dollars, indicate about \$1 billion less liquidation in 1975 and over \$2 billion less accumulation in both 1976 and 1977 than previously estimated. The liquidation in the first half of 1975 still remains the largest of the postwar period. The quarterly pattern of inventory investment remains virtually the same as earlier reported. Movements in the constant dollar nonfarm inventories/final sales ratio were very little affected by the revision: by 1977-II, this ratio was well below the 1974-IV high and a bit above the 1959-77 average.

Corporate profits were revised downward in 1975 and 1976 and upwards sharply in 1977. Economic profits (those with IVA and capital consumption adjustment^{2/}) are now indicated as being \$3 and \$1 billion lower in 1975 and 1976, respectively, but up by \$4-1/2 billion in 1977. Profits are now estimated to have risen by 77 per cent during this recovery rather than by 71 per cent after dropping almost 25 per cent during the 1973-75 recession; the average increase at this point in the previous 5 postwar recoveries was 46 per cent following an average decline of 16 per cent. The large 1977 revision was about evenly split between before tax (book) profits and the capital consumption adjustment. Economic cash flow--as measured by undistributed profits plus capital consumption allowances with the capital consumption adjustment plus inventory valuation adjustment--was revised downward in all three years; given the upward revision to capital outlays over the period this implies a considerably larger financing gap than previously indicated.

Other Private Activity

Residential construction and net exports were both little affected by the revisions with housing outlays showing a bit more growth than previously thought. Net exports now indicate a bit more deterioration over the revision period than earlier, as exports were revised up less than imports.

Government Activity

Federal expenditures were revised down in all three years with the major downward revisions coming in nondefense purchases of goods and services, transfer payments, and net interest outlays. Total receipts were lowered for 1975 and 1976, reflecting the downward revisions to both personal and corporate incomes; the upward revision for 1977 mainly reflected higher corporate profits tax accruals which more than offset the lower take from personal taxes.

Almost all of the upward revision in State and local expenditures was in transfer payments; purchases of goods and services were revised down in all three years. Greater than earlier-reported corporate profits tax accruals and Federal grants-in-aid resulted in an upward

^{2/} The capital consumption adjustment is used to reconcile depreciation reported in tax returns with that implied by a more appropriate measure of current replacement.

revision in total State and local receipts. This, in turn, resulted in a scaling upward of the overall State and local surplus. However, BEA now estimates a much larger surplus for pension funds than indicated previously and a good deal less for operating funds; for 1978-I the operating surplus was reduced from \$18.1 billion to \$11.5 billion. Even with the sizable downward revisions in the "operational surplus," recent surpluses still are substantially above the \$2 billion average yearly deficit in the postwar period.

Thus, the revisions indicate that, on the "IPA basis, net government fiscal activity was a bit less stimulative than earlier figures had indicated. The combined Federal and State and local deficit was reduced by about \$2-1/2 billion in 1976 and about \$1-3/4 billion in 1977; the 1976 reduction largely reflected the greater State and local surplus while that of 1977 was due to a smaller Federal deficit. (See Table V.)

Prices

The overall impact of the revision on prices, as measured by the GNP implicit price deflator, was fairly small. The rate of increase in these prices was unchanged in 1975, down .1 percentage point in 1976 and up .4 points in 1977. (See Table VI.) While the quarterly pattern of movements in the deflator is essentially unchanged, inflation rates during most of 1977 were raised from earlier estimates. The gross domestic business product fixed-weighted price index was little revised on an annual basis--a bit more rapid increase in 1977 and less rapid in 1975. However, quarterly revisions in components of this index (although largely offsetting) were large in many quarters with somewhat higher rates of inflation in fixed investment items than earlier thought, apparently reflecting inclusion of annual survey data in both manufacturing and construction.

Table I

1978 JULY REVISIONS IN GNP
 (Per cent changes from preceding period: quarterly figures
 at compound annual rates)

	GNP: Current Dollars			GNP: 1972 Dollars		
	Revised	Previously Published	Difference	Revised	Previously Published	Difference
1975:I	.6	.2	.4	-9.1	-9.6	.5
II	12.6	12.5	.1	6.4	6.4	.0
III	18.6	19.5	-.9	10.5	11.4	-.9
IV	9.0	9.5	-.5	2.6	3.0	-.4
1976:I	13.6	13.2	.4	9.3	8.8	.5
II	9.0	10.2	-1.2	4.0	5.1	-1.1
III	7.3	8.6	-1.3	2.7	3.9	-1.2
IV	8.2	6.7	1.5	2.3	1.2	1.1
1977:I	13.7	13.2	.5	7.3	7.5	-.2
II	14.0	13.7	.3	5.9	6.2	-.3
III	11.1	10.2	.9	5.7	5.1	.6
IV	8.9	9.9	-1.0	3.2	3.8	-.6
1978:I	7.1	7.0	.1	-.1	.0	-.1
1975	8.2	8.2	.0	-1.3	-1.3	.0
1976	11.2	11.6	-.4	5.7	6.0	-.3
1977	11.0	10.7	.3	4.9	4.9	.0

Table II

1978 JULY REVISIONS IN GNP
 (Billions of Current Dollars,
 Seasonally Adjusted Annual Rate)

	1975		1976		1977	
	Rev.	Prev.	Rev.	Prev.	Rev.	Prev.
Gross National Product	1528.8	1528.8	1700.1	1706.5	1887.2	1889.6
Personal Consumption Expend.	979.1	980.4	1090.2	1094.0	1206.5	1211.2
Durable Goods	132.6	132.9	156.6	158.9	178.4	179.8
Nondurable Goods	408.9	409.3	442.6	442.7	479.0	480.7
Services	437.5	438.2	491.0	492.3	549.2	550.7
Gross Private Dom. Invest.	190.9	189.1	243.0	243.3	297.8	294.2
Business Fixed Invest.	150.2	149.1	164.6	161.9	190.4	185.1
Producers' Dur. Equip.	96.4	96.3	107.3	106.1	126.5	123.6
Structures	53.8	52.9	57.3	55.8	63.9	61.5
Residential	51.5	51.5	68.2	68.0	91.9	91.0
Change in Business Inven.	-10.7	-11.5	10.2	13.3	15.6	18.2
Nonfarm	-14.3	-15.1	12.2	14.9	15.0	17.1
Net Exports	20.4	20.4	7.4	7.8	-11.1	-10.9
Exports	147.3	147.3	163.2	162.9	175.5	174.7
Imports	126.9	126.9	155.7	155.1	186.6	185.6
Government Purchases	338.4	338.9	359.5	361.4	394.0	395.0
Federal	123.1	123.3	129.9	130.1	145.1	145.4
State and Local	215.4	215.6	229.6	231.2	248.9	249.6

Table III

REVISIONS IN PERSONAL INCOME AND ITS DISPOSITION^{1/}
 (Billions of dollars; revisions for quarters are based on SAAR levels)

	Personal Income	Wage & Salary Disbursements	Other Labor Income	Proprietors' Income	Transfer Payments	Tax and Nontax Payments	Disposable Personal Income	Personal Outlays	Saving Rate ^{2/}
1975:I	-.2	-1.5	.1	1.0	.9	-.1	.0	-.7	.0
II	2.8	-.5	.1	.7	1.8	-.1	2.9	-.6	.3
III	4.4	1.5	.3	1.4	1.6	-.1	4.6	-1.0	.5
IV	1.4	1.2	.5	.8	1.0	-.3	1.7	-2.6	.4
1976:I	-1.2	.2	.7	1.7	.0	-.4	-.8	-2.0	.1
II	-3.5	-.9	1.0	-1.6	.6	.0	-3.5	-3.1	.0
III	-1.1	-2.9	1.3	1.2	2.0	-.6	-.5	-3.7	.3
IV	-1.7	-3.3	1.6	.8	1.7	-.5	-1.1	-5.4	.4
1977:I	-6.1	-4.9	1.7	.5	-.1	-1.7	-4.4	-5.2	.1
II	-8.6	-7.5	1.8	1.9	1.0	-1.5	-7.2	-6.1	.0
III	-6.1	-5.3	1.9	1.7	3.2	-1.5	-4.7	-5.7	.1
IV	-10.0	-7.9	2.1	2.3	3.3	-1.4	-3.7	-6.3	-.2
1978:I	-9.9	-7.9	2.2	1.7	3.3	.7	-10.5	-7.3	-.2
1975	2.1	.2	.2	1.0	1.4	-.2	2.3	-1.2	.3
1976	-1.8	-1.7	1.1	.6	1.1	-.4	-1.4	-3.6	.1
1977	-7.7	-6.4	1.8	1.6	1.9	-1.5	-6.2	-5.8	.0

^{1/}Revisions are defined as level of revised data minus level of previous estimate.

^{2/}Percentage points.

Table IV

REVISIONS IN GROSS PRIVATE DOMESTIC INVESTMENT^{1/}
 (Billions of dollars; revisions for quarters are based on SAAR levels)

	Total	Nonresidential Fixed		Residential	Change in Nonfarm ^{2/}	
		Structures	Producers' Durable Equip.		Business Inventories Revised	Inventories Previous
1975:I	1.0	.3	.7	-.1	-24.2	-25.9
II	1.1	1.0	.2	.1	-24.9	-26.5
III	1.5	1.2	.3	.3	1.1	1.4
IV	.8	1.3	-.6	-.3	-9.0	-9.2
1976:I	2.3	1.7	.5	1.0	12.7	15.9
II	2.4	1.8	.6	-.4	18.8	20.4
III	3.2	1.3	1.8	-.5	15.2	22.0
IV	2.9	.9	2.0	.4	2.2	1.4
1977:I	3.6	1.4	2.2	.6	11.1	14.1
II	4.8	2.4	2.4	.6	16.5	22.4
III	6.0	2.8	3.2	1.8	22.0	23.1
IV	6.8	2.9	3.8	.5	10.4	9.0
1978:I	6.8	2.3	4.5	.2	16.9	20.3
1975	1.1	.9	.1	.0	-14.3	-15.1
1976	2.7	1.5	1.2	.2	12.2	14.9
1977	5.3	2.4	2.9	.9	15.0	17.1

^{1/} Revisions are defined as level of revised data minus level of previous estimate.

^{2/} Actual data.

Table V

GOVERNMENT SURPLUS/DEFICIT (NIPA BASIS)
 (Billions of dollars at annual rates; based on seasonally adjusted levels)

	Combined		Federal		State and local	
	Revised	Previous	Revised	Previous	Revised	Previous
1975:I	-44.5	-44.9	-48.0	-48.5	3.4	3.7
II	-94.4	-94.7	-99.9	-99.2	5.5	4.5
III	-58.5	-59.0	-66.3	-65.5	7.7	6.6
IV	-60.0	-58.7	-68.2	-67.6	8.2	8.9
1976:I	-44.9	-47.1	-57.7	-60.3	12.8	13.3
II	-29.9	-33.3	-46.4	-46.2	16.4	12.9
III	-30.6	-32.4	-52.0	-53.5	21.4	21.1
IV	-27.1	-29.4	-59.1	-55.9	32.0	26.5
1977:I	-7.8	-11.5	-37.3	-38.8	29.5	27.3
II	-11.8	-14.9	-40.3	-40.3	28.5	25.4
III	-25.2	-26.0	-56.4	-58.9	31.2	32.9
IV	-29.6	-28.9	-58.6	-60.0	29.0	31.1
1978:I	-21.1	-21.7	-52.6	-55.8	31.5	34.1
1975	-64.4	-64.3	-70.6	-70.2	6.2	5.9
1976	-33.2	-35.6	-53.8	-54.0	20.7	18.4
1977	-18.6	-20.3	-48.1	-49.5	29.6	29.2

Table VI

1978 JULY REVISION OF GNP PRICES
 (Per cent change at annual rate: quarterly changes
 are based on seasonally adjusted data)

	<u>GNP Implicit Deflator</u>		<u>Gross Domestic Business Product Fixed-Weighted Price Index</u>	
	Revised	Previous	Revised	Previous
1975:I	10.7	10.8	8.1	9.0
II	5.9	5.7	6.8	6.6
III	7.3	7.3	8.2	7.6
IV	6.2	6.3	6.0	5.9
1976:I	3.9	4.1	3.8	4.3
II	4.7	4.9	4.9	5.3
III	4.5	4.6	4.9	4.5
IV	5.7	5.4	6.0	5.5
1977:I	6.0	5.3	6.7	6.8
II	7.7	7.1	7.9	7.5
III	5.1	4.8	4.7	5.0
IV	5.5	5.9	6.3	5.4
1978:I	7.2	7.0	6.7	6.2
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1975	9.6	9.6	9.4	9.5
1976	5.2	5.3	5.4	5.4
1977	5.9	5.5	6.2	6.0