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Part 2

August 13, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

CONFIDENTIAL (FR)

August 13, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
						(At Annual Rates)
Civilian labor force	July	8-1-75	92.9	7.5	2.8	1.8
Unemployment rate (per cent)	July	8-1-75	8.4	8.6 ^{1/}	8.9 ^{1/}	5.3 ^{1/}
Insured unemployment rate (%)	July	8-1-75	6.2	7.0 ^{1/}	6.8 ^{1/}	3.4 ^{1/}
Nonfarm employment, payroll (mil.)	July	8-1-75	76.4	1.4	.0	-2.7
Manufacturing	July	8-1-75	18.0	-2.6	-1.3	-10.6
Nonmanufacturing	July	8-1-75	58.3	2.6	.4	.0
Private nonfarm:						
Average weekly hours (hours)	July	8-1-75	36.1	36.0 ^{1/}	36.0 ^{1/}	36.7 ^{1/}
Hourly earnings (\$)	July	8-1-75	4.52	8.0	6.3	6.9
Manufacturing:						
Average weekly hours (hours)	July	8-1-75	39.5	39.1 ^{1/}	39.1 ^{1/}	40.2 ^{1/}
Unit labor cost (1967=100)	June	7-31-75	150.4	5.6	8.4	14.1
Industrial production (1967=100)	July	8-13-75	110.7	5.4	2.9	-11.7
Consumer goods	July	8-13-75	123.4	13.8	12.7	-5.1
Business equipment	July	8-13-75	112.7	-17.8	-9.4	-14.1
Defense & space equipment	July	8-13-75	83.3	14.6	4.4	.8
Materials	July	8-13-75	105.4	5.7	.8	-17.7
Consumer prices (1967=100)	June	7-22-75	160.5	9.3	6.9	9.3
Food	June	7-22-75	174.4	18.2	9.6	8.8
Commodities except food	June	7-22-75	148.5	5.7	5.7	9.4
Services ^{2/}	June	7-22-75	165.7	8.8	6.1	9.8
Wholesale prices (1967=100)	July	8-7-75	174.8	14.9	5.8	8.7
Industrial commodities	July	8-7-75	170.7	5.2	4.0	8.5
Farm products & foods & feeds	July	8-7-75	187.8	54.8	15.0	8.9
Personal income (\$ billion) ^{3/}	June	7-16-75	1244.9	30.2	16.5	8.9
						(Not at Annual Rates)
Mfrs. new orders dur. goods (\$ bil.)	June	7-31-75	39.3	.4	10.8	-16.1
Capital goods industries:	June	7-31-75	11.9	-.8	5.7	-13.8
Nondefense	June	7-31-75	10.0	-2.5	5.5	-16.4
Defense	June	7-31-75	1.8	9.8	7.0	3.9
Inventories to sales ratio:						
Manufacturing and trade, total	May	8-7-75	1.63	1.65 ^{1/}	1.66 ^{1/}	1.47 ^{1/}
Manufacturing	June	7-31-75	1.84	1.88 ^{1/}	1.96 ^{1/}	1.65 ^{1/}
Trade	May	8-7-75	1.39	1.43 ^{1/}	1.42 ^{1/}	1.32 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	June	7-31-75	.846	.846 ^{1/}	.832 ^{1/}	.693 ^{1/}
Retail Sales, Total (\$ bil.)	July	8-11-75	50.0	2.5	7.0	7.8
GAF	July	8-11-75	12.4	-.3	3.4	3.6
Auto sales, total (mil. units) ^{3/}	July	8-6-75	9.2	5.9	25.9	-3.4
Domestic models	July	8-6-75	7.6	6.9	32.3	-7.9
Foreign models	July	8-6-75	1.7	1.4	3.3	24.5
Housing starts, private (thous.) ^{3/}	June	7-17-75	1,070	-5.2	8.6	-30.2
Leading indicators (1967=100)	June	7-29-75	98.3	1.9	7.7	-13.5

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

It has become increasingly clear that a turnaround in economic activity has been in the making for the past several months. Retail sales have continued to show real gains, led by a steady improvement in auto sales. New orders for durable goods rose further in June, and the erosion in business spending commitments appears to be subsiding. Total employment and the factory workweek increased in July, and industrial production edged up again. At the same time, inventories were liquidated at a record rate in the second quarter, paving the way for a resumption of vigorous growth in activity. However, recent events have raised the likelihood of additional exports of agricultural goods and the decontrol of old oil--developments which could lead to at least a temporary deterioration in price performance and thereby dampen the recovery.

The index of industrial production in July is estimated to have increased by .5 per cent, about equal to the June rise. Reflecting the recent strength in consumer demand and the improvement in inventory positions, output of consumer goods rose further. The production of business equipment, however, declined 1.5 per cent further. Auto assemblies were at a 7.5 million unit annual rate, up 5 per cent from June. With sales about equal to production, auto stocks remained about unchanged while the number-of-days supply fell to near 60--a more reasonable level. An increase in auto assemblies, to a 7.8 million unit rate, is scheduled for August.

In the materials industries, the pattern of production change continued mixed. Output of durable materials remained depressed; raw steel production was about 30 per cent below the level of a year ago. Since the output of textiles, paper and chemical groups increased further, however, the capacity utilization rate in major materials production industries probably rose from June.

Retail sales in July are estimated from advance data to have risen 2-1/2 per cent above the upward-revised June level--the fourth consecutive monthly gain in real terms. Excluding autos and nonconsumer goods, last month's increase was 1.3 per cent. By product category, a decline in furniture and appliance sales about offset increases in other components of the GAF grouping. While an increase of about 1-1/2 per cent was registered in sales of nondurables, higher prices contributed to the unusually large monthly rise in the sales of food stores and gasoline stations.

Auto sales continued to rise further in July. Sales of new domestic models were at a seasonally adjusted 7.6 million unit annual rate--up 7 per cent from June and a third above their April low. Auto sales have increased for three consecutive months, and for the first time this year, were above the level reached during the industry-wide rebate sale in February. Sales of foreign autos, at a 1.7 million unit rate in July, have changed little since last March. While the foreign share of auto sales has declined, from about 22 per cent in April to about 18 per cent last month, it still remains significantly above the rate a year ago.

Advance indicators of activity in the business sector picked up in the second quarter as new orders for durable goods increased by 8 per cent--compared with a 14 per cent decline recorded in the previous quarter. Much of the second-quarter increase was concentrated in iron-and-steel bookings and orders received by the motor-vehicle industry. In June, new orders for durable goods rose by 0.4 per cent. Bookings for nondefense capital goods fell 2.5 per cent in June but remain above their first-quarter low. Unfilled orders also dropped further in June, continuing the steady erosion begun last fall. The rate of decline in backlogs has slowed much more for total durable goods than it has for nondefense capital goods.

In June, contracts for commercial and industrial buildings (measured in square footage) rose about 13 per cent, and the second-quarter level of contracts was up over 8 per cent, after falling for three consecutive quarters. In the second-quarter, the rate of increase in the commercial category was more than twice the size of the gain in industrial contracts.

Further confirmation of the stabilization of business investment plans is provided by the Board's tabulation of published capital spending cutbacks. Total cancellations in July were at their lowest level in 15 months, and there were essentially no further cutbacks announced by public utilities.

Private housing starts in June fell to a seasonally adjusted annual rate of 1.07 million units--5 per cent below May and nearly a third below the declining rate of a year ago. While starts for the

second quarter as a whole were somewhat above their first-quarter trough and a further rise is expected from the current exceptionally low level, there is still little available evidence of a vigorous recovery in housing starts. One factor limiting the pace of total starts this year has been the substantial rise in construction costs from already high levels. In May, such costs were estimated to be nearly a tenth above a year earlier and more than 30 per cent higher than their 1967 average. In addition, actual and expected increases in the cost of utilities, property taxes and maintenance--in conjunction with uncertainties about future rent levels--have continued to dampen interest in new multi-family activity by both lenders and investors.

There was apparently a further liquidation of business inventories in June, but probably at a slower pace than in the previous few months. As a result, the second-quarter liquidation may be less than the Commerce Department's preliminary estimate. The book value of manufacturers' stocks fell at a \$11 billion seasonally adjusted annual rate in June--compared with a \$15 billion rate decline in May. The June inventory reduction was concentrated in durable goods--especially fabricated metals and machinery--although stocks of primary metals continued to accumulate. Nondurable goods inventories fell at less than a \$4 billion annual rate, about a third of the May decline. Nearly all of this reduction occurred in the food industry while most of the remaining nondurable goods groupings either showed increases or were about unchanged. These data suggest that the inventory adjustment among producers of nondurable goods is about completed.

The book value of wholesale trade stocks turned upward at a \$1.0 billion annual rate in June--following a \$3.9 billion rate of decline in May. This was the first rise after five consecutive monthly declines. Durable wholesale stocks continued to fall at a \$1.2 billion annual rate in June--about a quarter of the May rate of decrease. Non-durable stocks rose at a \$2.3 billion annual rate, following a May reduction of \$4.5 billion.

The recovery in economic activity is reflected in the recent behavior of the labor market. Nonfarm payroll employment increased by nearly 90,000, seasonally adjusted, in July; if the effect of strikes is eliminated, employment would have risen by about 135,000. Increases in jobs occurred in 55 per cent of the surveyed industries in July--up from the recession low of 17 per cent last February. Most of last month's gains in employment were concentrated in retail trade and services. In manufacturing, it is typical of a recovery for man-hours to increase initially as a result of rising weekly hours. The factory workweek in July rose .4 hour to 39.5 hours, seasonally adjusted--following four months of relative stability in this series.

The unemployment rate dropped to 8.4 per cent, seasonally adjusted, in July--.5 percentage point below its second-quarter average but still higher than any monthly jobless rate between 1941 and 1975. The decrease in unemployment from its second-quarter average included most age-sex groups except adult men. The civilian labor force increased rapidly in July--up by 530,000 from June--and total employment as measured by the household survey rose 630,000. While the household survey

indicates a rise in total employment of 1.2 million since March, the establishment survey shows no change in wage and salary employment over this period.

The average rate of wage increase was quite small in July. The average hourly earnings index for production or nonsupervisory workers in the private sector rose at a seasonally adjusted annual rate of 2.1 per cent from June. A sharp increase in construction wages was offset by a deceleration of wage gains in manufacturing, trade and services. Since January, the earnings index has risen at a 7.5 per cent annual rate.

A much more comprehensive measure of changes in labor costs in the private nonfarm economy--compensation per hour--increased at a seasonally adjusted annual rate of 7.3 per cent in the second quarter, significantly less than the 9.4 per cent rise in the first quarter and the most moderate gain since the middle of 1973. Output per hour in the private nonfarm sector is estimated to have risen at a seasonally adjusted annual rate of 3.3 per cent in the second quarter--its first increase in two years. This rise in productivity combined with the moderating increase in compensation to hold the increase in unit labor costs to about 4 per cent, annual rate, in the second-quarter--down sharply from the 11-1/2 per cent rate recorded in the previous quarter, and the smallest increase in this series since 1972.

Unlike wages, prices have accelerated recently, judging by in-coming data. Wholesale prices increased by 1.2 per cent, seasonally adjusted (not at an annual rate), in July--mainly as a result of higher prices for food and fuels. The index for farm and food products rose

4.6 per cent--owing mainly to increases for grains, hogs, meats and fresh vegetables. The July rise appears to reflect some though not all of the impact of anticipated U.S. grain sales abroad but none of the recent rise in the price of coffee caused by the crop failure in Brazil. The index of industrial commodity prices at wholesale rose .4 per cent in July--largely because of higher prices for refined petroleum products and electric power. Price increases were also recorded for machinery and equipment and textile products. The .4 increase, however, does not reflect last month's boost in wholesale gasoline prices (data on most refined petroleum products are entered in the index with a one-month lag), nor does it reflect recent price increases scheduled for both aluminum and steel products. From a year ago, the wholesale price index has risen 8.7 per cent--the most moderate 12-month rate of increase in more than two years.

In June, the consumer price index rose .8 per cent, seasonally adjusted (not at an annual rate), in large part because of higher food prices. An increase of .5 per cent in nonfood commodities reflected principally advances for gasoline, fuel oil and used cars. Consumer services were .7 per cent higher as charges for mortgage interest, utilities and medical care increased.

The staff is currently forecasting a unified budget deficit of \$71.0 billion for FY'76. This is \$1.6 billion above the July Greenbook's estimate, and reflects a \$.6 billion upward revision in outlays and a \$1.0 downward adjustment in receipts. These changes in our projections are mainly the result of the assumed expiration of oil-price controls and anticipated adjustments in oil-related tax policy.

The staff is now assuming that the Administration will remove the \$2 per barrel fee on imported oil which reduces FY '76 revenues by \$2.5 billion. This loss in receipts, however, is partly offset by a higher estimate of tax revenues associated with the upward-revised GNP projections. We are also assuming that Congress will enact a windfall profits tax to accompany the decontrol of oil prices. The resulting increase in revenue, however, is expected to be returned to individuals in the form of a reduction in withheld taxes. Such a package is thus assumed to have little or no effect on net revenues, but is expected to raise oil-industry taxes by about \$8-1/2 billion in fiscal year 1976, while lowering individual income taxes by the same amount.

On the expenditure side, the decontrol of oil is expected to raise the Defense Department's fuel costs. Furthermore, those transfer payments which are tied to the price level are expected to rise modestly, given the impact of higher energy and food prices on the CPI. These adjustments raise projected unified budget outlays to \$367.6 billion in FY '76; on an NIA basis Federal spending is expected to be \$375.9 billion.

Table 1

RETAIL SALES

(Seasonally adjusted, percentage change from previous period)

	1975		1975		
	QI	QII	May	June	July
Total sales	2.7	3.5	3.0	1.3	2.5
Durable	5.3	4.5	4.2	3.6	4.5
Auto	7.2	5.6	5.3	5.4	7.9
Furniture and appliance	-.7	4.9	.3	1.4	-2.3
Nondurable	1.6	3.1	2.5	.3	1.5
Food Stores	2.9	1.2	2.6	1.4	2.4
General merchandise	.3	5.5	4.5	.2	-.3
Gasoline Service Station	1.2	2.5	.9	.7	2.3
Total, less auto and nonconsumption items	1.6	3.1	2.4	.5	1.3
GAF	1.0	5.0	3.2	.4	-.3
Real*	.9	2.2	2.6	.5	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

Table 2

AUTO SALES
(Seasonally adjusted annual rates)

	Total	Domestic			Imports
		Total	Large	Small	
1974:QI	9.0	7.5	4.8	2.7	1.6
QII	9.2	7.9	5.4	2.5	1.3
QIII	10.1	8.5	5.5	3.0	1.6
QIV	7.4	6.1	3.9	2.2	1.3
Oct.	8.0	6.4	3.9	2.5	1.6
Nov.	7.0	5.7	3.7	2.0	1.3
Dec.	7.2	6.1	4.0	2.1	1.1
1975:QI	8.3	6.6	3.6	3.0	1.7
Jan.	8.1	6.6	3.7	2.9	1.5
Feb.	9.2	7.2	3.6	3.6	2.0
Mar.	7.7	6.0	3.6	2.4	1.6
Apr.	7.3	5.7	3.8	1.9	1.6
May	7.7	6.2	4.1	2.1	1.5
June	8.7	7.1	4.5	2.6	1.6
July	9.2	7.6	4.6	3.0	1.7

Table 3

New Orders

(Per cent change from prior month)

	Total Durable Goods	Nondefense Capital Goods
1974:July	1.8	6.6
Aug.	3.7	-7.8
Sept.	-6.2	.2
Oct.	-2.8	-3.8
Nov.	-4.2	-6.7
Dec.	-12.4	-1.5
1975:Jan.	-4.7	-3.7
Feb.	2.7	-1.1
Mar.	-4.1	-4.5
Apr.	9.2	8.3
May	1.1	-.1
June (p)	.4	-2.5

Table 4

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

	1970 ^{1/}	1975				Per cent change in	
	QI	QI	QII	May(r)	June(p)	June from: Month ago	Year ago
Permits	1.10	.69	.89	.91	.93	+ 2	- 16
Starts	1.24	1.00	1.06	1.13	1.07	- 5	- 30
1-family	.69	.75	.84	.89	.86	- 3	- 14
2- or more-family	.55	.25	.22	.24	.21	-14	- 61
Under construction ^{2/}	.89	1.11	n.a.	1.07	n.a.	- 1 ^{3/}	- 29 ^{3/}
Completions	1.39	1.39	n.a.	1.22	n.a.	+ 2 ^{3/}	- 27 ^{3/}
MEMO:							
Mobile home shipments	.37	.20	.21	.22	.21	- 6	- 47

^{1/} Previous cyclical trough.

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

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

Table 5

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

	1974	1975			
	QIV	QI	QII	May	June
Manufacturing and trade	52.9	-11.4	n.a.	-31.3	n.a.
Manufacturing	29.7	3.2	-12.6	-14.8	-10.8
Durable	19.1	7.6	-4.4	-5.1	-7.1
Nondurable	10.6	-4.5	-8.2	-9.7	-3.7
Trade, total	23.2	-14.5	n.a.	-16.5	n.a.
Wholesale	8.3	-4.1	-3.5	-8.9	1.0
Retail	14.9	-10.4	n.a.	-7.5	n.a.
Auto	11.8	-8.5	n.a.	-2.6	n.a.

INVENTORY RATIOS

	1974		1975	
	May	June	May	June
<u>Inventory to sales:</u>				
Manufacturing and trade	1.47	1.50	1.63	n.a.
Manufacturing total	1.61	1.65	1.88	1.84
Durable	2.02	2.04	2.49	2.47
Nondurable	1.17	1.20	1.26	1.22
Trade, total	1.32	1.35	1.39	n.a.
Wholesale	1.12	1.14	1.26	1.23
Retail	1.49	1.52	1.48	n.a.
<u>Inventories to unfilled orders</u>				
Durable manufacturing	.703	.693	.846	.846

Table 6

Changes in Nonfarm Payroll Employment
(In Thousands)

	Employment July 1975	Average Monthly Change		
		July 1974- July 1975	Jan. 1975- July 1975	June 1975 July 1975
Total Nonfarm	76,352	-177	-146 .	+88
Goods-producing	22,102	-222	-184	-80
Construction	3,360	-47	-72	-44
Manufacturing	18,032	-178	-114	-39
Durable	10,399	-130	-102	-71
Nondurable	7,633	-48	-13	+32
Service-producing	54,250	+45	+38	+168
Trade	16,919	-16	+9	+65
Services	13,779	+22	+5	+67
Government	14,921	+57	+49	+33
State & local government	12,181	+56	+47	+23

Table 7

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1975		
	QII	June	July
Total	8.9	8.6	8.4
Men 20 years and over	7.1	7.0	7.0
Women 20 years and over	8.4	8.1	7.9
Teenagers	20.5	19.2	19.1
Household heads	6.1	6.1	6.0
White	8.2	7.9	7.9
Negro and other races	14.3	13.7	13.0
Full-time workers	8.6	8.2	8.1
State insured*	6.9	7.0	6.2

* per cent of covered workers.

Table 8

HOURLY EARNINGS INDEX*
 (Seasonally adjusted; per cent change, compound annual rate)

	July 1974- July 1975	Jan. 1975- July 1975	June 1975- July 1975
Total private nonfarm	8.4	7.5	2.1
Manufacturing	9.5	8.4	4.6
Construction	8.7	9.1	13.7
Trade	7.7	6.7	3.0
Services	6.6	4.8	-8.8

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

Table 9

PRICE BEHAVIOR

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

	Relative impor- tance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to June 1975	June to July 1975
WHOLESALE PRICES					
All commodities	100.0	20.9	-6.3	7.2	14.9
Farm and food products	29.1	11.0	-27.6	17.0	54.8
Industrial commodities ^{2/}	70.9	25.6	4.2	2.6	5.2
Materials, crude and intermediate	46.0	28.2	2.7	1.6	2.0
Finished goods:	26.1	21.2	5.7	4.0	6.2
Consumer nonfood	17.5	20.5	3.8	4.1	7.1
Producer	8.6	22.6	11.8	5.1	5.2
Consumer foods	13.4	13.0	-12.9	23.7	30.0
	Relative impor- tance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to June 1975	May to June 1975
CONSUMER PRICES					
All items	100.0	12.2	6.0	7.1	9.3
Food	24.8	12.2	-0.2	10.0	18.2
Commodities (nonfood)	39.0	13.2	7.4	5.9	5.7
Services	36.2	11.3	8.0r	6.3	8.8
Addendum					
All items less food and energy ^{3/4/}	68.3	11.3	9.4	4.2	2.3
Petroleum products ^{3/}	4.4	22.8	-0.5	19.4	29.4
Gas and electricity	2.5	19.6	17.7	17.5	23.8

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

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

^{3/} Confidential -- not for publication.

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

Table 10

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

	Fiscal Year 1975 ^{p/}	Fiscal 1976 ^{e/}		Calendar Years		F.R.B. Staff Estimates					
		Adm. Est. 5-30-75	F.R. Board	1974 Actual	1975 F.R.B. ^{e/}	Calendar Quarters					
						1975		1976			
						I*	II ^{p/}	III	IV	I	II
Federal Budget						Unadjusted data					
Surplus/deficit	-44.2	-59.9	-71.0	-10.9	-74.1	-18.0	-12.6	-17.2	-26.3	-25.4	-2.1
Receipts	280.9	299.0	296.6	280.5	278.1	65.1	76.0	72.0	65.0	66.3	93.3
Outlays	325.1	358.9	367.6	291.4	352.2	83.1	88.6	89.2	91.3	91.7	95.4
Means of financing:											
Net borrowing from the public	50.9	74.0	81.6	11.8	84.1	19.4	16.7	18.1	29.9	28.6	5.0
Decrease in cash operating balance	1.6	n.a.	1.6	4.5	.4	-.7	-1.0	2.4	-.3	-.5	--
Off-budget deficit ^{1/}	-9.3	-14.2 ^{2/}	-14.2	-3.6	-12.7	-5.3	-2.3	-1.2	-3.9	-4.7	-4.4
Other ^{3/}	1.0	n.a.	2.0	-1.7	2.3	4.6	-.8	-2.1	.6	2.0	1.5
Cash operating balance, end of period	7.6	n.a.	6.0	5.9	5.5	6.6	7.6	5.2	5.5	6.0	6.0
Memo: Sponsored agency borrowing ^{4/}	10.8	n.a.	n.e.	16.6	1.0	.1	-.3	.5	.7	n.e.	n.e.
National Income Sector						Seasonally adjusted, annual rates					
Surplus/deficit	-47.0 ^{5/}	n.a.	-65.6 ^{5/}	-8.1	-76.2	-54.4	-107.4 ^{e/}	-68.0	-75.0	-61.8	-57.8
Receipts	282.4 ^{5/}	n.a.	310.2 ^{5/}	291.1	280.6	284.1	247.9 ^{e/}	293.0	297.4	320.6	329.9
Expenditures	329.4	371.4 ^{2/}	375.9	299.1	356.8	338.5	355.3	361.0	372.4	382.4	387.7
High Employment surplus/deficit (NIA basis) ^{6/} ^{7/}	3.4	n.a.	-10.5	19.1	-13.4	9.6	-38.5	-6.8	-17.9	-10.2	-7.0
* Actual	e--projected	n.e.--not estimated	n.a.--not available	p--preliminary							
^{1/}	Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.										
^{2/}	Unpublished, confidential O.M.B. estimate consistent with Mid-Session Review of the 1976 Budget, May 30, 1975.										
^{3/}	Checks issued less checks paid, accrued items, and other transactions.										
^{4/}	Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.										
^{5/}	Quarterly average exceeds fiscal year total by \$.6 billion for fiscal 1975 and \$.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.										
^{6/}	Estimated by F.R. Board staff.										
^{7/}	The high-employment budget estimates now fully incorporate taxes on inventory profits beginning in 1973.										

DOMESTIC FINANCIAL SITUATION

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

Indicator	Latest data		Net change from			
	Period	Level	Month ago	Three months ago	Year ago	
<u>Monetary and credit aggregates</u>			<u>SAAR (per cent)</u>			
Total reserves	July	35.0	4.7	.1	-.3	
Reserves available (RPD's)	July	33.0	-1.4	-.9	.6	
Money supply						
M1	July	294.2	.8	9.9	4.9	
M2	July	651.4	7.6	13.3	8.6	
M3	July	1056.7	11.9	15.5	10.1	
Time and savings deposits (Less CDs)	July	357.3	13.6	16.3	11.9	
CDs (dollar change in billions)	July	82.2	-1.9	-6.2	-1.4	
Savings flows (S&Ls + MSBs and Credit Unions)	July	405.3	18.9	19.1	12.6	
Bank credit (end of month)	July	706.6	5.3	3.3	2.2	
<u>Market yields and stock prices</u>			<u>Percentage or index points</u>			
Federal funds	wk. endg.	8/6/75	6.09	-.22	.67	-6.00
Treasury bill (90 day)	"	8/6/75	6.37	.31	.97	-2.05
Commercial paper (90-119 day)	"	8/6/75	6.50	.22	.52	-5.05
New utility issue Aaa	"	8/8/75	9.44	.06	.49	-.38
Municipal bonds (Bond Buyer)	1 day	8/7/75	7.16	.20	.21	.58
FNMA auction yield (FHA/VA)		8/11/75	9.32	.22	.02	-.81
Dividends/price ratio (Common stocks)	wk. endg.	8/6/75	4.30	.35	.17	-.17
NYSE index (12/31/65=50)	end of day	8/11/75	46.15	-4.56	-1.86	4.30
<u>Credit demands</u>			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			1975	1974	1975	1974
Business loans at commercial banks	July	.6	3.4	-6.5	22.5	
Consumer instalment credit outstanding	June	.4	1.1	2.2	14.8	
Mortgage debt outst. (major holders)	May	3.5	5.1	14.9	22.2	
Corporate bonds (public offerings)	July	2.7e	2.1	24.1e	13.8	
Municipal long-term bonds (gross offerings)	July	3.4e	1.5	18.4e	14.6	
Federally sponsored Agcy. (net borrowing)	July	.6e	3.1	.5	7.4	
U.S. Treasury (net cash borrowing)	August	6.9e	2.3	50.6e	.9	
Total of above credits			18.1	18.6	104.2	96.2

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Evidence of a sharper-than-expected turnaround in business activity and of continued inflationary pressures has weighed heavily on the securities market since the July FOMC meeting. The market's sensitivity to incoming data was further heightened by Chairman Burns' remarks about the need to maintain a moderate rate of monetary expansion in the current economic environment after the System's commitment to this goal had already been indicated by the late June rise in money market rates. Under these circumstances, the 1/4 percentage point advance in the Federal funds rate over the latter half of July was promptly reflected in 1/4 to 1/2 point increases of most other short-term market yields. Rate advances also spread to longer-term markets where heavy offerings of Treasury coupon securities accentuated the rise. Since late July, higher long-term rates have led to the cancellation or postponement of major offerings in both corporate and Federal agency markets.

Several signs of economic recovery can be discerned in recent data on private financial flows. Growth in consumer loans has resumed as consumption expenditures--particularly on autos--have risen further. Residential mortgage loan closings also are strong, although worries about possible pressures toward disintermediation continue to generate caution among lenders in their commitment policies. Business demands for short-term credit still remain weak, but not quite so weak as over the past several months when inventory liquidation was at its peak.

Monetary Aggregates

Growth of the monetary aggregates slowed markedly in July, as households apparently adjusted their holdings of deposits following the rapid buildup that accompanied the second quarter bulge in Treasury disbursements. M_1 was little changed, on average, during the month, while M_2 --owing to the flatness in M_1 and to a moderation in the growth of consumer-type time and savings deposits--expanded at about the average pace of the first four months of 1975. Growth in demand and consumer-type time and savings deposits was, nevertheless, sufficient to meet demands for bank credit, and banks therefore permitted outstanding money market CD's to fall in July for the sixth consecutive month.

Nonbank thrift institutions also recorded somewhat reduced deposit inflows in July, which undoubtedly was primarily attributable to the end of the special Treasury disbursements. But flows to large New York City savings banks were also affected by competition from the July 3 Municipal Assistance Corporation offering. The MAC issue provided extraordinarily high taxable-equivalent yields to N.Y. City residents. Although deposit growth at savings and loan associations appeared to weaken in late July, there was only a modest slowing for the month as a whole--indicating that disintermediation on a broad scale is probably not a significant factor as yet. However, it may be noted that non-competitive tenders in recent Treasury security auctions have been relatively heavy.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1 9 7 5						Twelve months ending July 1975 ^p
	H1	Q1	QII	May	June	July ^p	
	<u>Per cent at annual rates</u>						
M ₁	6.8	2.4	11.0	10.9	17.8	0.8	4.9
M ₂	11.0	8.4	13.3	13.1	18.8	7.6	8.6
M ₃ ^{1/}	13.2	10.4	15.5	14.7	19.3	11.8	10.1
Adjusted bank credit proxy	5.3	3.1	7.5	2.4	15.1	-5.9	4.1
Time and savings deposits at commercial banks:							
a. Total	8.5	10.1	6.8	3.9	11.6	5.8	9.1
b. Other than large CD's	14.7	13.6	15.3	15.0	19.7	13.6	11.9
Deposits at nonbank thrift institutions: ^{2/}							
a. Savings and loans	19.1	17.0	20.4	20.2	22.9	18.3	14.5
b. Mutual savings banks	12.9	10.5	15.0	15.9	18.1	10.9	9.0
c. Credit unions	21.1	20.4	20.8	20.4	20.1	19.7	17.5
	<u>Billions of dollars</u> ^{3/}						
Memoranda:							
a. U.S. Gov't demand deposits	.3	-.4	1.0	--	1.7	-1.3	-.1
b. Negotiable CD's	-1.0	-.2	-1.9	-2.9	-1.4	-1.9	-0.1
c. Nondeposit sources of funds	-.2	-.6	.2	.7	-.4	-.2	-.2

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

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

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

p - Preliminary.

Bank Credit and Commercial Paper

Business loans and commercial paper issued by nonfinancial firms both are estimated to have registered seasonally adjusted increases in July. Although seasonal adjustment difficulties in the June-July period complicate the interpretation of recent data, it is clear that short-term business credit demands are not nearly as weak as they were in the second quarter. With short-term market rates rising and with banks apparently still desiring to maintain wide profit margins and to limit loan portfolio growth, most major banks have raised their prime rates from 7 to 7-3/4 per cent over the past month.

Bank holdings of U.S. Treasury securities continued to rise in July, but at a much reduced pace as compared with the preceding several months. However, the July figure does not reflect possible bank participation in several Treasury coupon auctions during the latter half of the month, for which settlement was scheduled after July 30. Other securities rose substantially for the second consecutive month. Large N.Y. City banks made small net purchases of tax-exempt bonds despite their acquisition of a large proportion of the July MAC issues. Other large banks added sizable volumes of tax warrants to their portfolios.

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

	1974 QIV	1 9 7 5					
		QI	QII	May	June	July	June- July
Total loans and investments ^{2/}	-1.0	4.3	2.3	3.8	.9	5.6	3.2
U.S. Treasury securities	-27.5	82.1	97.4	80.0	73.3	16.4	45.3
Other securities	9.3	-1.4	4.9	5.2	12.0	11.0	11.6
Total loans ^{2/}	-1.1	-1.6	-9.5	-6.5	-12.4	2.5	-5.0
Business loans ^{2/}	3.5	-4.5	-10.9	-9.9	-18.6	4.0	-7.3
Real estate loans	5.9	3.7	1.5	.9	.9	--	.5
Consumer loans	-3.3	-6.7	-6.8	-8.8	-4.4	n.a.	n.a.

Memo:

Business loans plus non-financial commercial paper ^{3/}	4.3	-2.6	-13.2	-17.1	-19.2	6.9	-6.2
--	-----	------	-------	-------	-------	-----	------

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

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

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

n.a. - Not available.

Treasury Securities

The large current and prospective financing requirements of the Federal government have exerted significant upward pressure on yields in all sectors of the Government securities market. In the bill area, the Treasury has added substantially to each of its recent weekly auctions and has announced its intention to continue doing so through mid-September. In addition, to cover the mid-August low in its cash balance the Treasury sold \$1 billion of 18-day "cash management" bills that will be rolled over into 1-year bills in the regular monthly auction at the end of August.

Supplies in the bill market have been further enlarged recently as foreign official institutions have liquidated holdings of bills in order to obtain dollars for exchange market intervention and as the System has moved to absorb reserves released by reductions in Treasury balances at Federal Reserve Banks. Because of these actions, the market had to absorb an additional \$2.5 billion of bills in the 3 weeks ended August 6. The yield on 3-month Treasury bills has risen about 35 basis points since the July FOMC meeting, and that on 6-month bills about 50 basis points. The appreciably widened spread between the 3- and 6-month yields suggests that the market expects higher short-term rates in the latter part of this year.

Yields on Treasury notes and bonds have risen significantly since the July FOMC meeting. Late in the month, the Treasury auctioned \$5.8 billion of securities to refund \$4.8 billion of August 15 maturities and to raise \$1 billion of new cash. Dealers were awarded large volumes of the new issues in the auction; when incoming economic data then gave rise to bearish sentiment among market participants, dealers quickly cut prices in order to lighten their positions. Additional upward pressure on yields was provided by the Treasury's subsequent announcement that it would be auctioning \$4 billion of 2-year and 4-year notes in August.

With the completion of its financing operations announced for August, the Treasury will have raised about \$17 billion in the current fiscal year and it now appears that it will need to raise an additional \$2.0 billion or so of new money before mid-September, presumably by adding on to weekly bill auctions. This is about \$2 billion more borrowing in the third quarter than anticipated by the Board staff at the time of the July Greenbook. Redemptions of special issues by foreign official institutions are responsible for most of this unexpected increase in market borrowing.

Other Securities Markets

Other securities markets have also been affected by the changing judgments of market participants regarding the likely

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

	Aug. '74 FOMC Aug. 20	May FOMC May 20	June FOMC June 17	July FOMC July 15	July 29	Aug. 5	Aug 12
Short-term							
Federal funds ^{1/}	12.23	5.13	5.31	5.93	6.25	6.09	6.08 ^{4/}
Treasury bills							
3-month	9.05	5.11	5.03	6.05	6.30	6.45	6.40
6-month	9.13	5.37	5.36	6.38	6.70	6.89	6.88
1-year	8.86	5.70	5.61	6.49	6.84	7.05	7.12
Commercial paper							
1-month	12.00	5.25	5.25	6.13	6.25	6.38	6.38
3-month	11.88	5.50	5.50	6.25	6.38	6.50	6.63
Large neg. CD's ^{2/}							
3-months	12.35	5.60	5.50	6.45	6.63	6.55	6.70
6-months	12.15	6.10	5.88	7.00	7.20	7.30	7.55
Federal agencies							
1-year	9.65	6.44	6.20	7.24	7.48	7.75	n.a.
Bank prime rate	12.00	7.25	7.00	7.00	7.50	7.50	7.50
Long-term							
Corporate							
New AAA ^{1/}	10.10	9.54	8.95	9.38	9.25	9.37	9.44p
Recently offered ^{3/}	10.02	9.61	9.22	9.45	9.33	9.35	9.52p
Municipal							
(Bond Buyer) ^{3/}	6.61	6.88	6.80	6.98	7.22	7.09	7.16
U.S. Treasury							
(20-year constant maturity)	8.58	8.14	7.96	8.10	8.21	8.47	8.48p
Stock prices							
Dow-Jones	726.85	830.49	828.61	881.81*	824.86	810.50	828.54
N.Y.S.E.	39.32	47.80	48.27	51.24*	47.20	46.09	46.48

^{1/} Weekly average.

^{2/} Highest quoted new issues.

^{3/} One day quotes for preceding Thursday.

^{4/} Average for first 6 days of statement week ending August 12.

* High for the year.

course of economic recovery and inflation. A significant rise in corporate bond yields has occurred notwithstanding some moderation in the planned volume of new offerings. As yields rose in early August, \$375 million of previously announced corporate and foreign issues were postponed or cancelled. A \$200 million offering of long-term agency securities also was cancelled.

The August volume of domestic corporate note and bond offerings is now expected to be somewhat lower than the already reduced July total of \$2.7 billion. Although this decline reflects the usual summer pattern, the improvement in corporate cash flow resulting from inventory liquidation may also be reducing the urgency corporations feel to engage in additional funding of short-term debt. Industrial firms marketed slightly less than \$1 billion of long-term debt in July, well below the \$2 billion per month average of the previous 6 months. A portion of this decline was offset, however, by increased offerings by foreign private and official institutions.

Offerings of corporate stocks also have slowed since June. This change reflects the marked decline in stock prices since mid-July as well as the already noted summer drop-off in security offerings and the somewhat reduced pressure for restructuring of balance sheets. The Dow-Jones industrial average has fallen more than 50 points

from its high of 881.8 on July 15, and the N.Y.S.E. composite index has declined about 10 per cent.

Municipal bond yields have remained close to the record high levels reached in mid-July. The unresolved problems of New York City and the consequent uncertainties about future MAC offerings have continued to weigh on the tax-exempt market. The initial MAC offering of \$1 billion in July, carried extraordinarily high yields, but a portion remained unsold at the original terms and the offering subsequently dropped sharply in price. In early August, Moody's re-evaluated its rating criteria on all tax-exempt note issues, most prominently those of N. Y. state agencies. Even prior to this action, however, prevailing market uncertainty had led many investors to remove all New York names from their lists of securities acceptable for purchase. Yield spreads between higher and lower-rated issues remain unusually wide.

Consumer Credit

As retail sales improved, total consumer credit outstanding rose in June at a seasonally adjusted annual rate of \$6.5 billion, the largest advance since last September. Most of the growth--\$5.1 billion--occurred in instalment obligations. Increases were registered in all major types of instalment credit during June as extensions of new credit exceeded the record volume of repayments. Personal

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

	1975					
	QI	QII ^{e/}	June ^{e/}	July ^{e/}	Aug. ^{f/}	Sept. ^{f/}
	<u>Gross Offerings</u>					
Corporate securities						
Total	5,092	5,218	5,910	4,000	3,600	3,900
Publicly-offered bonds	3,610	3,524	4,100	2,700	2,400	2,300
Privately-placed bonds	779	587	750	600	600	1,000
Stocks	703	1,107	1,060	700	600	600
Foreign securities ^{1/}	418	392	450	925	300	400
State and local government securities						
Long-term	2,255	2,720	2,945	3,400	2,400	2,600
Short-term	2,554	3,089	2,700	1,700	1,800	1,800
	<u>Net Offerings</u>					
U.S. Treasury ^{2/}	6,484	5,536	567	7,600	6,900	4,700
Sponsored Federal Agencies	40	-110	571	599	-538	428

^{e/} Estimated.

^{f/} Forecast.

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

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

loans and instalment loans for consumer goods other than automobiles rose substantially, and the June pickup in new car sales was accompanied by the first rise in auto loan outstandings since February. Major automobile finance companies reported (on a confidential basis) that both loan delinquencies and refinancings declined sharply in June to the lowest rates for the year; repossessions also fell.

Mortgage Markets

The volume of mortgage loans closed at thrift institutions increased somewhat further in June. At the same time, the growth in outstanding commitments slowed, reflecting the continued concentration of commitment activity in permanent loans for the purchase of existing homes, which often are taken down in the same month they are granted. Despite expanding demands for mortgage credit, and a slowdown in deposit growth rates in some areas during July, S&L's in all FHLB bank districts continued to report funds in adequate supply for mortgage lending through the early part of August. Field reports suggest that lenders remain wary, however, due to growing concerns about rising interest rates and future savings flows.

Mortgage interest rates in the primary market have been stable in recent weeks. However, rates in FNMA auctions of forward commitments to purchase home mortgages have risen about 20 basis

CONSUMER INSTALMENT CREDIT

	outstandings (SAAR)		Credit extensions			New-car
	(\$ billions)	(Per cent)	Total, SAAR (\$ billions)	Bank share (Per cent)	Open-end share* (Per cent)	finance rates APR at finance companies (Per cent)
1974 - I	8.8	6.1	164.3	41.9	29.2	12.29
II	14.0	9.5	172.9	41.5	30.0	12.50
III	14.1	9.3	172.5	42.3	30.6	12.84
IV	-3.2	-2.1	155.7	41.1	33.2	13.10
1975 - I	-2.4	-1.6	156.5	41.9	32.5	13.07
II	.2	.1	161.2	41.5	32.7	
Apr.	-2.9	-1.9	158.2	41.4	32.1	13.07
May	-1.5	-1.0	157.8	41.6	33.5	13.09
June	5.1	3.3	167.5	41.3	32.5	

*Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

points since mid-July, as mortgage bankers have sought to hedge against a further tightening of mortgage market conditions and as lower prices on GNMA guaranteed mortgage-backed securities have reduced the attractiveness of that vehicle for the merchandising of new mortgages.

INTEREST RATES AND SUPPLY OF FUNDS FOR
CONVENTIONAL HOME MORTGAGES
AT SELECTED S&L's

End of Period	Average Rate on New Commitments for 80% Loans (Per cent)	Basis Point Change from Month or Week Earlier	Number of Federal Home Loan Bank Districts with Funds in Short Supply
1974--High	10.03	--	12
Low	8.40	--	0
1975--High	9.59	--	10
Low	8.80	--	0
July 3	8.89	-2	0
11	8.91	+2	0
18	8.90	-1	0
25	8.90	0	0
Aug. 1	8.90	0	0
8	8.90	0	0

FNMA AUCTION RESULTS--HOME MORTGAGE COMMITMENTS

Date of auction	Government-underwritten		Average Yield	Conventional		Average Yield
	Amount (In \$ millions)			Amount (In \$ millions)		
	Offered	Accepted		Offered	Accepted	
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/8)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14(10/21)	7(11/18)	8.47 (3/11)
1975--High	552 (4/7)	321 (3/24)	9.37 (1/13)	100 (4/7)	51 (4/21)	9.50 (1/13)
Low	25 (2/10)	18 (2/10)	8.78 (3/10)	11 (1/27)	9 (2/10, 2/24)	8.96 (3/10)
July 14	333.2	174.9	9.10	71.4	35.88	9.20
28	415.8	247.7	9.17	56.5	34.5	9.26
Aug. 11	578.7	365.5	9.32	96.9	48.9	9.38

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

INTERNATIONAL DEVELOPMENTS

8/13/75

IV - T - 1

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

	1974E/	1975P/			
	Year	Q-1	Q-2	May*	June*
<u>Goods and services, net 1/</u>	3,843	3,420			
Trade balance	-5,259	1,917	3,536	1,121	1,953
Exports	98,269	27,222	25,837	8,218	8,987
Imports	103,528	25,305	22,301	7,097	7,034
Net service transactions	9,102	1,503			
<u>Remittances and pensions</u>	-1,721	-458			
<u>Gov't grants and capital, net</u>	-4,342	-1,235			
<u>Bank-reported private capital, net change</u>	-2,534	-5,491	-4,395	-2,866	-1,212
<u>Claims on foreigners (inc. -)</u>	-19,325	-3,856	-3,773	-2,509	-491
Liquid	-5,980	-5,166	-2,577	-1,266	-1,620
Other	-13,345	1,310	-1,196	-1,243	1,129
<u>Liabilities to foreigners (inc. +)</u>	16,791	-1,635	-622	-357	-721
Liquid liabilities to:	16,782	-1,556	-338	-311	-652
Commercial banks abroad	12,636	-2,631	227	-687	1
(of which liab. to branches) 2/	(2,357)	(-1,085)	(197)	(522)	(-575)
Other private foreigners	2,851	219	94	218	72
Int'l & regional organizations	1,295	856	-659	158	-725
Long-term liabilities	9	-79	-284	-46	-69
Private transactions in securities, net	-1,318	-1,322	-291	-94	-250
U.S. purchases (-) of foreign securities	-1,990	-2,031	-993	-185	-648
(of which: New bond issues)	(-2,373)	(-2,108)	(-1,235)	(-235)	(-754)
Foreign purchases (+) of U.S. securities	672	709	702	91	398
Stocks	544	958	896	378	258
Bonds	130	-249	-194	-287	140
<u>U.S. direct investment abroad, (inc. -)</u>	-7,268	-937			
<u>Foreign direct investment in U.S., (inc. +)</u>	2,224	326			
<u>Nonbank-reported: liquid claims, (inc. -)</u>	-133	307		177	
: other claims, (inc. -)	-3,004	-68			
: liabilities, (inc. +)	1,316	233			
<u>Changes in liab. to foreign official agencies</u>	9,810	3,587	1,654	686	697
OPEC countries (inc. +) 2/ 3/	10,025	270	1,056	435	-125
Other countries (inc. +)	-215	3,317	598	251	822
<u>Changes in U.S. reserve assets (inc. -)</u>	-1,434	-326	-51	-78	-3
Gold	--	--	--	--	--
Special drawing rights	-172	-5	-38	-35	--
Reserve position in the IMF	-1,265	-307	-7	-41	18
Convertible currencies	3	-14	-6	-2	-21
<u>Errors and omissions</u>	4,561	1,964			
<u>Memo:</u>					
Official settlements balance, S.A.		-3,261	-1,603		
N.S.A.	-8,374	-2,227	-1,203	-608	-694
O/S bal. excluding OPEC, S.A.		-2,991	-547		
N.S.A.	1,649	-1,957	-147	-173	-819

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

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

2/ Not seasonally adjusted.

3/ Partly estimated.

p = Preliminary.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. During the past month, the weighted average value of the dollar against 10 major foreign currencies has risen nearly 5 per cent, bringing its rise since mid-year to 6 per cent. The dollar has advanced against all major currencies, with its largest gains against the snake currencies, particularly the German mark. A number of factors contributed to the dollar's rise in the exchanges: Russian purchases of U.S. grain, a much larger-than-expected trade surplus in June, further indications of the beginnings of a recovery in the U.S. economy, and the widening differential between U.S. and Continental interest rates because of further easing in money market conditions in the major Continental countries in the past week.

Central bank intervention since mid-July has resulted in net sales of approximately \$300 million. Gross sales of dollars over \$1,200 million by the central banks of five major countries (Germany, Italy, Canada, Japan, and the United States) more than offset the \$900 million purchased, net, by the United Kingdom, France, and Switzerland. Both the central banks of France and Switzerland purchased dollars, despite the depreciation in their currencies against the dollar, in an effort to keep their currencies from appreciating against the mark. The Bundesbank sales of dollars over this period were relatively modest in view of the sharp upward movement of the dollar. Both the intervention policies of the snake countries (including Switzerland) and the willingness of their central banks to let domestic interest rates ease, indicate that the snake countries are not opposed to a depreciation in their currencies against the dollar.

The monetary stance of the central banks of Italy, Canada, and the United Kingdom contrasts markedly to that of the snake countries. Both Canada and Italy have sold dollars heavily to support their exchange rates. The United Kingdom, which had net purchases of dollars for the period under review because of a temporary strengthening in sterling at the end of July associated with oil payments, has sold over \$200 million since the beginning of August to moderate the pound's decline. In all three countries, the monetary authorities have permitted domestic interest rates to rise in an effort to minimize further exchange rate pressures.

The Bank of Japan sold approximately \$150 million last week in an effort to keep the exchange rate at 293 yen/dollar. Pressure on the yen seems to have developed from widespread expectations that domestic interest rates would soon decline -- in fact, the Bank of Japan did announce a 1/2 per cent cut in its bank rate, effective August 13.

Euro-currency markets. Euro-dollar deposit rates have shown little change, on balance, in the past few weeks, following the sharp run-up in late June associated with the tightening of money market conditions in the United States. Liabilities of U.S. banks to their foreign branches averaged \$2.6 billion in the statement week ended August 6, up some \$500 million from the week ended July 9.

The differential between the cost of short-term Euro-dollar loans and the cost of commercial paper borrowing in the United States is currently just under 2 percent, about the same as in early July, though in late July the differential in favor of commercial paper borrowing had declined fairly sharply.

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

Average for month or week ending Wednesday	(1) Over-night Euro-\$	(2) Federal Funds	(3) Differential (1)-(2)(*)	(4) 3-month Euro-\$ Deposit	(5) 60-89 day CD rate	(6) Differential (4)-(5)(*)
1975-Apr.	5.35	5.49	-0.14 (0.17)	7.04	5.85	1.19 (1.22)
May	5.20	5.22	-0.02 (0.20)	7.30	5.41	1.89 (1.85)
June	5.55	5.55	0.00 (0.23)	6.10	5.35	0.75 (0.66)
July	5.96	6.10	-0.16 (0.11)	7.13	6.03	1.10 (1.02)
July 2	6.32	6.31	0.01 (0.27)	6.84	5.88	0.96 (0.87)
9	5.72	6.06	-0.34 (-0.10)	7.36	6.00	1.36 (1.29)
16	5.91	5.93	-0.02 (0.23)	7.11	6.00	1.11 (1.03)
23	5.88	6.14	-0.26 (-0.01)	7.16	6.13	1.03 (0.64)
30	6.03	6.25	-0.22 (0.04)	7.06	6.13	0.93 (0.83)
Aug. 6	6.20	6.09	0.11 (0.37)	6.98	6.25	0.73 (0.62)
13 ^{p/}	6.12	6.08	0.04 (0.30)	7.24	6.25	0.99 (0.89)

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

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

	July 11	July 25	Aug. 8	Aug. 12 ^{d/}
1) 3-mo. Euro-\$ loan ^{a/}	7.19	7.13	7.31	7.31
2) 90-119 day com'l. paper ^{b/}	6.38	6.50	6.63	6.63
3) U.S. bank loan:				
a) predominant prime rate	7.00	7.25	7.50	7.75
b) with 15% comp. bal's. ^{c/}	8.24	8.53	8.82	9.12
c) with 20% comp. bal's. ^{c/}	8.75	9.06	9.38	9.69
Differentials:				
(1) - (2)	0.81	0.63	0.68	0.68
(1) - (3a)	0.19	-0.12	-0.19	-0.44
(1) - (3b)	-1.05	-1.40	-1.51	-1.81
(1) - (3c)	-1.56	-1.93	-2.07	-1.94

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

^{b/} offer rate plus 1/8 per cent.

^{c/} prime rate adjusted for compensating balances.

^{d/} Tuesday.

Despite further declines in economic activity in many industrial countries abroad, demand for medium- and long-term credit in international markets strengthened markedly in the second quarter. In the market for medium-term Euro-currency bank credits, publicized loan completions declined somewhat in June from the very high April-May levels. But the second quarter total of \$4.9 billion, as compiled by the World Bank, was up 70 percent over the first quarter total of \$2.9 billion, and was the largest for any quarter since the second quarter of 1974. While loans completed by borrowers in developed countries declined from \$1.1 to \$0.8 billion, credits arranged by oil-exporting countries rose from \$0.1 to \$1.2 billion. Non-oil LDC's, non-members of the IBRD (mainly Eastern Europe), and international organizations all completed higher amounts of credits in the second quarter, their combined total rising from \$1.7 billion to \$2.9 billion.

While banks have been more willing to make loans, and spreads have shown scattered signs of contraction, the rise in volume has been accompanied by a further and marked shortening of maturities. The percentage of credits in the 1-6 year maturity category rose from 54 to 75 percent of the total as the percentage in the 7-10 year category dropped from 35 to 17 percent.

The second quarter saw new issues of Euro-bonds rise to \$2.7 billion from \$1.8 billion in the first quarter; the first half total of \$4.5 billion compares with \$2.1 billion in all of 1974. All major categories of borrowers showed much greater flotations this year than in the comparable period last year. State enterprises accounted for 40 percent

of total borrowings in the first half of 1975, followed by non-U.S. private companies (31 percent), governments (18 percent), international organizations (8 percent), and U.S. companies (3 percent). Virtually all of the flotations were by borrowers in developed countries.

In the second quarter, the proportion of total bonds denominated in U.S. dollars rose to 32 percent from 22 percent in the first quarter, while the proportion denominated in German marks fell to 40 percent from 50 percent previously. The 28 percent denominated in other currencies included some issues in the currencies of Kuwait and Saudi Arabia designed for Arab investors. The SDR-denominated Alusuisse issue in early June was followed quickly by two other SDR issues by Swedish and French borrowers, for a total of SDR 140 million of SDR bonds. But expectations of additional SDR issues have not materialized, perhaps in part because of the increasing strength of the dollar. In late July, the Bundesbank prohibited any issues during August (except those already in the pipeline) of mark-denominated bonds by foreigners in either the Euro-bond or German national markets, in order to increase the availability of long-term capital to German borrowers.

Yields on outstanding long-term Euro-bonds at the end of June were almost unchanged from end-March levels, as moderate declines in yields on mark bonds approximately offset increases of about 15 basis points in dollar bond yields. In July, dollar bond yields declined about 10 basis points as yields on mark bonds moved up about 15 basis points. Maturities on new issues have remained short, generally in the 5-8 year range.

The increased volume of new Euro-bond issues in the second quarter coincided with a substantial increase in foreign bonds in national markets (principally Germany and Switzerland) and a continuation of heavy recourse by foreign borrowers especially Canadian, to the U.S. capital market.

U.S. International Transactions. The major features of U.S. international transactions during the second quarter of 1975 were the continued decline in the value of U.S. imports and exports, accompanied by a substantial increase in the trade surplus, and the fall in the rate of net capital outflows reported by banks and in private securities transactions. Since the increase in liabilities to foreign official agencies was much smaller in the second quarter than in the first, there must have been a substantial reduction in the net inflow on items for which we do not yet have data.

U.S. Merchandise Trade. The second quarter marked the third consecutive quarter of increased trade balances. The surplus of \$14 billion resulted from a 12 per cent reduction in imports and a 5 per cent reduction in exports (see table). The declines in both imports and exports reflect the continuing weak state of economic activity here and abroad. Month-to-month movements within the quarter were quite sharp, as non-agricultural exports and non-fuel imports both increased by about 10 per cent in June over May.

The value of U.S. imports fell by \$12 billion (seasonally adjusted annual rate) during the second quarter (a decline of about 12 per cent), fuel imports declined by 9 per cent, while non-fuel imports declined by 13 per cent. The fall in the volume of imports was somewhat greater, as the unit value of non-fuel imports increased by about 3 per cent, more than offsetting a slight drop in the unit value

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

	1974 Year	1974				1975			
		1Q	2Q	3Q	4Q	1Q	2Q	May ^r	June
<u>EXPORTS</u>	<u>98.3</u>	<u>89.8</u>	<u>96.8</u>	<u>100.1</u>	<u>106.3</u>	<u>108.9</u>	<u>103.3</u>	<u>98.6</u>	<u>107.8</u>
Agric.	22.4	23.2	22.9	21.0	22.5	25.1	19.5	18.6	18.8
Nonagric.	75.9	66.6	74.0	79.1	83.8	83.8	83.9	80.0	89.1
<u>IMPORTS</u>	<u>103.5</u>	<u>90.3</u>	<u>102.7</u>	<u>109.2</u>	<u>111.9</u>	<u>101.2</u>	<u>89.2</u>	<u>85.2</u>	<u>84.4</u>
Fuels	27.4	20.0	28.4	31.1	31.0	27.7 ^r	25.1 ^r	25.0 ^r	19.2 ^r
Nonfuels	76.2	70.3	74.3	78.1	80.9	73.5 ^r	64.1 ^r	60.2 ^r	65.2 ^r
<u>TOTAL BALANCE</u>	<u>-5.3</u>	<u>-0.5</u>	<u>-5.8</u>	<u>-9.1</u>	<u>-5.6</u>	<u>+7.7</u>	<u>+14.1</u>	<u>+13.5</u>	<u>+23.4</u>
BALANCE excl. fuel imp. & agr. exp.	-0.3	-3.7	-0.3	+1.0	+2.9	+10.3 ^r	+19.8 ^r	+19.8	+23.9 ^r

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

of fuel imports. About \$8 billion of the \$9.5 billion decline in non-fuel imports was accounted for by approximately equal absolute declines in imports of iron and steel and other industrial supplies, reflecting the dramatic liquidation of inventories during the second quarter. In other categories, the decline in the value of imports of capital goods and consumer goods more than offset the increased imports of automotive equipment from Canada.

The \$2.6 billion reduction in fuel imports during the second quarter can be largely explained by the decline in fuel consumption associated with the lower levels of U.S. economic activity; this is approximately the decline expected on the basis of the historical relation

of fuel consumption to prices and economic activity. Within the quarter, fuel imports fell from \$25.0 billion (seasonally adjusted annual rate in May to \$19.2 billion in June; fuel imports were particularly low in June because of earlier accelerated purchases and reporting aimed at avoiding the additional import fees on crude and refined petroleum products imposed on June 1.

The \$5.6 billion reduction in U.S. exports during the second quarter was due to declines in both the volume (22 per cent) and unit value (8 per cent) of agricultural exports. The total value of non-agricultural exports remained unchanged, as a \$2 billion decline in the value of exports of non-agricultural industrial supplies was roughly offset by an increase in exports of capital goods and automotive equipment. New export orders for durable goods (excluding automotive products) rose about 1 percent during the second quarter, with a decline in new orders for aircraft somewhat more than offset by increases in new orders for machinery and other durables. Exports to most major developed countries showed declines of varying magnitudes; exports to the non-oil exporting developing countries fell, while merchandise exports to oil-exporting countries increased by 7 per cent, down sharply from the rate of increase in 1974.

U.S. agricultural exports declined in the second quarter to a rate of \$19.5 billion (seasonally adjusted annual rate), also lower than the average rate for 1974. Since early July, however, estimates of world

grain production have been revised downward substantially while major purchases by the Soviet Union have been announced. World grain production was 898 million metric tons in 1972/73 while the U.S. Department of Agriculture estimated in July that 1975/76 production would reach 974 million metric tons; it is now believed, however, that this forecast will be revised downward in August. Through the end of July, Russian purchases of grain amounted to about 14 million metric tons, of which 10 million metric tons have been purchased from U.S. firms. The U.S.D.A. estimates that Russian import demand may be as high as 20 million metric tons in 1975/76, compared with 21 million metric tons in 1972/73. It is now expected that increases in both the volume and unit values of agricultural exports will produce increases in the value of U.S. agricultural exports in the next six months.

U.S. International Capital Transactions. Partly because of an increase in U.S. relative to foreign interest rates, the net outflow of private capital from the United States reported by banks and in securities transactions declined substantially during the second quarter. The official settlements balance (SA) following a \$3.3 billion deficit in the first quarter was in deficit by \$1.6 billion in the second quarter; excluding OPEC, the deficit in this balance fell from \$3.0 billion in the first quarter to a \$.5 billion in the second quarter.

Bank-reported private capital transactions showed a net outflow in the second quarter of \$4.4 billion, compared with an outflow of \$5.5

billion in the first quarter. Most of this decline reflected the rise in interest rates in the United States relative to those in other major financial centers. Most of the net outflow in the second quarter occurred in May (NSA); the outflow in June was \$1.2 billion. Outstanding bank-reported claims on foreigners increased by \$3.8 billion in the second quarter, about unchanged from the rate in the first quarter. Bank-reported liquid liabilities to private foreigners fell by \$.3 billion in the second quarter, whereas they had declined \$1.4 billion in the first quarter.

Transactions in securities other than U.S. Treasury issues yielded an outflow of \$300 million in the second quarter, down sharply from an outflow of \$1.3 billion in the first quarter, but about the same as the average quarterly rate for 1974. The bulk of the decline in the second quarter was due to the decline in foreign bond issues in the U.S. market, while net foreign purchases of U.S. issues were unchanged. Preliminary data for June and July indicate that new foreign bond issues in the U.S. market rose back to about the average monthly rate for the first quarter, primarily because of a large volume of Canadian issues in June and issues of international organizations in July. Preliminary indications for August suggest some decline from these rates, however, as rising interest rates reportedly reduced new flotations.

U.S. liabilities to foreign official agencies rose by \$1.7 billion in the second quarter, compared with an increase of \$3.6 billion in the first quarter; the June increase was roughly unchanged from May.

Liabilities to OPEC members increased by \$1.1 billion in the second quarter, up from the increase of \$8.3 billion in the first quarter, but still down from the average quarterly increase of \$2.5 billion in 1974. Liabilities to foreign official agencies of other countries increased by only \$.6 billion (net) in the second quarter, compared with an increase of \$3.3 billion during the first quarter, reflecting reduced rates of net intervention purchases of dollars by major industrial countries.

Monetary Conditions in Major Foreign Industrial Countries. The widespread decline in short-term interest rates from historic highs, which began last year and continued through the first several months of 1975, and the parallel, but smaller, decline in long-term rates appears to have slowed in the last few months. (See Table 1.) In some countries the downward movement in interest rates has actually been reversed recently.

The general decline in interest rates, while the product of several factors, including the easing of very restrictive monetary policies, was due in large part to the sharp drop in economic activity and the consequent decline in the demand for credit. However, it is unlikely that the recent interest rate trends abroad can be ascribed to a recovery in activity. With the exception of Japan, there has been little sign that the recession in the major foreign industrial countries has ended. It seems more likely that recent increases in interest rates in the United States, and on dollar-denominated assets in general, and the resulting capital flows into these assets are largely responsible for the recent movements in interest rates abroad.

Short-term interest rates have risen slightly in the United Kingdom, Italy and Canada in recent months, while elsewhere the drop in the rates has levelled off. In Germany short-term rates have continued to decline, but at a slower pace. With the exception of Japan, where the decline in short-term rates has been more gradual than elsewhere, short-term rates are still far below their earlier peaks.

Long-term rates also declined earlier this year, but less than short-term rates. In the last few months the bond market in most countries

TABLE I
 INTEREST RATES FOR MAJOR COUNTRIES
 (Per cent per annum, at or near end of month)

	Short-term Rates						Long-term Rates					
	1974	1975					1974	1975				
	Dec.	March	May	July	Latest	(date)	Dec.	March	May	July	Latest	(date)
United Kingdom	12.44	9.88	9.88	10.50	10.75	(8/11)	17.44	13.61	14.66	13.72	14.10	(8/8)
Germany	8.30	5.20	4.70	4.50	3.70	(8/12)	9.43	8.05	7.56	7.44	7.44	(8/8)
France	11.50	8.63	7.38	7.25	7.13	(8/13)	10.93	10.09	10.10	10.00	--	(7/25)
Italy	17.50	11.93	9.75	10.38	10.50	(8/11)	12.65	11.18	11.42	--	11.23	end June
Belgium	11.00	7.40	6.75	6.50	6.50	(8/5)	9.03	8.71	8.09	8.21	--	end July
Netherlands	6.69	5.69	3.00	2.75	--	(7/31)	8.72	8.26	7.54	8.01	--	(7/25)
Switzerland	7.00	7.00	6.50	6.00	6.00	(8/13)	7.17	6.83	6.76	6.43	6.37	(8/8)
Japan	13.50	12.50	11.00	11.00	10.50	(8/13)	10.85	9.94	9.34	9.41	--	end July
Canada	10.50	6.75	7.13	7.50	8.50	(8/11)	8.85	8.47	8.73	9.15	9.42	(8/6)
United States	8.94	5.75	5.25	6.13	6.25	(8/8)	7.92	8.29	8.24	8.18	8.49	(8/8)

Notes:

Short-term rates: U.K. - 3-month interbank sterling rate; Germany - 3-month interbank loan rate; France - 3-month interbank rate; Italy - 3-month interbank rate; Belgium - rate on 4-month Treasury Bills; Netherlands - 3-month Treasury Bills; Switzerland - 3-month deposit rate; Japan - call money rate, unconditional; Canada - Canadian finance company paper; U.S. - 3-month CD's.

Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bond yield; Italy - composite yield on nine 6% government bonds; Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4-4-1/2% government loans; Switzerland - government composite bond yield; Japan - 7 year industrial bonds; Canada - government long-term average bond yield; U.S. - government 20-year constant maturity bond yields.

has shown less strength than earlier this year, and in Canada long-term rates have increased. In the United Kingdom, on the other hand, while long-term rates are still very high, they continued to decline until this month despite a large public-sector borrowing requirement, because excess liquidity in the private sector created a strong demand for public-sector bonds. Although inflation rates in most countries have declined from the extremely high levels of the recent past, the persistence of expectations of relatively high rates of inflation may be limiting the decline in long-term rates.

The strengthening of the markets for fixed-interest securities had also been reflected in the widespread improvement in equity markets earlier this year although, clearly, other influences were also affecting equity prices. The recovery in equity prices has flattened out in the last few months, and in the United Kingdom, France and Italy stock indices have recently turned down. The halt in the rise of equity prices may reflect fears that the upturn in economic activity will be later in coming and weaker than previously expected, as well as the reversal of the downward trend in interest rates.

Another influence on interest rate movements, in addition to those already mentioned, is the constraint imposed on the monetary authorities in some countries by the need to finance large current account deficits. The previous decline in dollar interest rates permitted the authorities abroad to allow or induce interest rates to decline without decreasing net capital inflows. Now the recent rise in dollar-denominated

interest rates may be operating to constrain the authorities in some countries. Thus, in the United Kingdom, where the authorities must ensure that sterling-denominated assets remain attractive to non-residents, the Bank of England in late July induced the minimum lending rate to rise and market rates have followed. In Canada, because of the emergence of a large current account deficit for 1975, expected to be C\$5-6 billion, and the desire to have a substantial part of it financed by a large volume of new issues of Canadian securities in the New York market, the Canadian authorities have permitted interest rates to rise in order to discourage Canadian borrowers from switching back to the domestic capital market. The French and Italians are disposed to maintain high interest rates relative to those abroad to discourage capital outflows, and the recent rise in short-term rates in Italy, while not brought about by the authorities, may reflect their willingness to allow interest rates to increase to match increases abroad.

In Germany, despite the current account surplus, the authorities have been troubled by the heavy volume of mark-denominated bonds issued by foreign borrowers because of the attractiveness of low interest rates; the total long-term capital outflow for the first 6 months of 1975 was DM 8.8 billion. In order to prevent rates on German public authority bonds from rising, the Bundesbank purchased large amounts of public debt -- DM 1.7 billion (about 2.5 per cent of the outstanding supply) in July alone. Also in order to reduce upward pressure on interest rates, the authorities have tried to slow capital outflows -- on July 23

the major underwriting banks imposed a moratorium on the issuing of foreign mark-bonds through the end of August and on July 25 the Bundesbank requested commercial banks not to refinance credits to non-residents by discounting bonds and notes on the capital market through August.

The weakness of economic activity has led the monetary authorities to ease monetary policy during 1975. There have been one or more discount rate reductions in France, Germany, Italy, Belgium, Switzerland, the Netherlands, Canada, Japan, Denmark and Austria, and the Bank of England minimum lending rate had fallen several times before the recent increase. Reserve requirements have been reduced in France, Belgium, Canada, Germany, and Switzerland. Quantitative credit ceilings have been raised in Japan and France and removed in Italy, although the weak state of demand in these countries has meant that the ceilings have not been binding.

Despite these measures, most monetary authorities appear to be exercising caution in pursuing expansionary policies. This is due in part to the external considerations already discussed and in part to the fact that while inflation rates have declined they are still historically quite high. A brief review of the current stance of policy illustrates this caution.

In the United Kingdom, as has been mentioned, policy has recently been somewhat tightened; the government indicated last month that it will "keep the growth of the money supply under firm control" in order to render its anti-inflationary policy (discussed below) more effective. In Canada there have been no new expansionary monetary steps

since March. In France interest rates are still relatively high and a new factor that may inhibit a more deliberately expansionary monetary policy is the return of the franc to the European Community snake at the old parity. Italian policy has been easing since late last year, but balance-of-payments considerations continue to act as a restraint. The Japanese turned to an expansionary monetary policy later than elsewhere, first lowering discount rate in mid-April and again in June and August. However, the fear of rekindling inflationary pressures has acted to restrain the authorities from acting more forcefully.

Even in Germany, where significant expansionary steps have been taken since last October, with repeated reductions in discount rate, Lombard rate and reserve requirements, there has been a recent note of caution partly because of the large volume of capital outflows. Bundesbank officials have indicated a reluctance to allow interest rates to decline much further, but at the same time have acted to prevent them from rising.

The cautious approach of the authorities may also be reflected in the relatively slow growth abroad of the broadly-defined money stock in several countries. (See Table 2.) M_2 , (or in the case of the United Kingdom, M_3), is growing more slowly this year (with the exception of the early part of the year in Canada) than in the past two years. Because of declines in interest rates, which have caused shifts from time to demand deposits, the narrowly-defined money stocks are not following a similar pattern.

The authorities in several countries appear to believe that a further easing of monetary conditions will have limited benefits in

TABLE 2
MONEY STOCK
(percentage changes; SAAR)^{a/}

	1973	1974	3-months ending in:				
	Year	Year	Sept. '74	Dec. '74	March '75	May '75	June '75
M₁							
France	9.0	16.2	-7.8	53.0 ^{b/}	-7.8	-2.1 ^{c/}	--
Germany	1.8	11.7	11.7	21.5	6.8	17.0	--
Japan	16.9	11.6	-1.8	9.8	10.2	5.5	--
United Kingdom	4.5	7.2	11.1	17.0	23.6	14.2	13.5 ^{d/}
Canada	11.9	6.1	-4.4	4.7	37.2	7.8	7.8
United States	6.1	4.7	1.0	5.4	2.4	9.1	11.6
M₂							
France	15.0	17.9	8.2	32.5 ^{b/}	6.0	5.2 ^{c/}	--
Germany	13.9	5.7	0.5	9.8	-4.5	-16.2	--
Japan	16.8	11.5	5.8	10.9	15.0	11.7	--
United Kingdom (M ₃)	28.8	11.4	18.6	10.1	9.1	8.5	7.4
Canada	18.5	16.9	23.6	14.7	22.4	5.8	8.9
United States	8.8	7.2	4.3	6.9	8.7	11.4	14.0

a/ Calculated to end of period from end of preceding period, at compound annual rates.

b/ The French money stock is severely distorted by the postal strike, which caused a sharp increase in deposits in postal accounts in the fourth quarter of 1974.

c/ Calculated for three months ending April.

d/ U.K. M₁ series has a break in May; the series has been adjusted to provide comparability with earlier data.

spurring economic activity. Recent indications suggest, in fact, that the policy emphasis is shifting towards fiscal measures. Japan has already taken several anti-recession fiscal measures and is expected to take further steps in September. Italy announced a package of substantial public expenditure increases this month. Germany, which has already taken expansionary fiscal steps, is expected to announce new measures shortly, and France is expected to announce expansionary fiscal steps in September. The prospective French and German steps, taken with prior consultation with each other, in order to foster a joint economic expansion, indicate that these countries are very concerned that the world recession is more serious than had been previously thought.

Anti-Inflation Policy in the United Kingdom. New anti-inflation measures in Britain -- announced on July 11 -- became effective on August 1. The goal -- to be achieved principally by limiting pay increases -- is to reduce the rate of price inflation from the current annual rate of about 25 per cent to 10 per cent by the fourth quarter of 1976. For all employees earning less than £8500 (\$18,000) per year, pay increases will be limited to a maximum of £6 per week (or slightly more than 10 per cent on average) for the 12 months beginning August 1; the less-than-one per cent of employees earning more than £8500 per year will receive no pay increase at all. Only one pay settlement per year will be allowed. Dividend increases will be limited to 10 per cent per year (instead of the previous 12-1/2 per cent).

To make the pay limitations more palatable to workers, price controls will be retained beyond the March 1976 scheduled expiration

date. The Government will try to ensure that prices for goods of special importance in the family budget will not rise more than 10 per cent. The previously scheduled phasing-out of food subsidies will be delayed. Rent increases will be limited to the general rate of inflation.

This policy as it now stands is not statutory, although the Government has prepared -- but hopes not to have to submit -- legislation that would apply legal sanctions on employers, not on employees, if the pay limits are exceeded. Yet even though the Government cannot now stop excessive settlements from being granted, it does have existing powers to ensure that the costs to the employer of such settlements cannot be passed on. These powers are especially strong so far as public sector settlements are concerned. In the nationalized industries, by controlling subsidies, access to borrowing, and product and service prices, the Government can ensure that excessive wage increases can be paid for only by reducing employment. Similarly, the Government controls grants to, and borrowing by, local authorities, although the latter can raise taxes. Control over the private sector is less direct. Existing price controls have been modified so that if pay increases exceed the £6 limit, no part of the increase at all can be used to justify increasing product prices. The higher wages can, however, be paid for by the private sector out of profits or by reducing employment.

Beyond the controls just cited, the Government must rely on the acceptance by the unions of the pay policy. There is some basis for hoping that union leaders and membership have generally accepted

the necessity of this policy as an alternative to cuts in public expenditures. The announcements last week of a temporary subsidy to employers in depressed regions who refrain from laying-off additional workers, and of reduced lay-offs at British Steel, help to solidify union support. Moreover, the high and rising level of unemployment makes this a propitious time to introduce a policy of wage restraint. But, clearly, moderation of wage demands, in particular of the more militant unions, remains to be tested.