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CONFIDENTIAL (FR)

July 14, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	June	7-2-76	94.6	1.1	3.9	2.2
Unemployment rate (per cent)	June	7-2-76	7.5	7.3 1/	7.5 1/	8.7 1/
Insured unemployment rate (%)	June	7-2-76	4.5	4.3 1/	4.3 1/	6.7 1/
Nonfarm employment, payroll (mil.)	June	7-2-76	79.0	.4	1.8	3.5
Manufacturing	June	7-2-76	18.9	-3.5	.5	4.4
Nonmanufacturing	June	7-2-76	60.1	1.6	2.2	3.2
Private nonfarm:						
Average weekly hours (hours)	June	7-2-76	36.1	36.3 1/	36.2 1/	36.0 1/
Hourly earnings ($)	June	7-2-76	4.83	4.83 1/	4.77 1/	4.51 1/
Manufacturing:						
Average weekly hours (hours)	June	7-2-76	40.2	40.2 1/	40.2 1/	39.3 1/
Unit labor cost (1967=100)	May	6-29-76	150.1	3.2	6.5	1.4
Industrial production (1967=100)	May	6-15-76	123.2	8.8	7.9	11.9
Consumer goods	May	6-15-76	133.9	9.9	5.8	10.5
Business equipment	May	6-15-76	123.8	19.7	11.3	7.7
Defense & space equipment	May	6-15-76	78.9	10.7	-1.0	-4.6
Material	May	6-15-76	123.8	10.8	12.7	18.0
Consumer prices (1967=100)	May	6-22-76	169.3	7.1	4.8	6.1
Food	May	6-22-76	180.6	11.4	2.7	4.7
Commodities except food	May	6-22-76	155.3	7.0	4.7	5.0
Services	May	6-22-76	178.8	5.4	6.4	8.4
Wholesale prices (1967=100)	June	7-9-76	182.4	5.3	6.5	5.4
Industrial commodities	June	7-9-76	180.5	6.0	3.6	6.4
Farm products & foods & feeds	June	7-9-76	187.5	4.5	16.9	3.0
Personal income ($ billion) 2/	May	6-16-76	1357.2	9.8	9.4	11.5
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	May	6-30-76	50.0	4.5	11.2	26.4
Capital goods industries	May	6-30-76	13.8	1.0	10.5	15.4
Nondefense	May	6-30-76	11.7	1.6	9.4	13.7
Defense	May	6-30-76	2.1	-2.3	17.4	26.2
Inventories to sales ratio:						
Manufacturing and trade, total	May	7-14-76	1.46	1.45 1/	1.47 1/	1.62 1/
Manufacturing	May	6-30-76	1.58	1.58 1/	1.62 1/	1.87 1/
Trade	May	7-14-76	1.34	1.31 1/	1.32 1/	1.38 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	May	6-30-76	.838	.845 1/	.844 1/	.824 1/
Retail sales, total ($ bil.)	June	7-9-76	54.0	2.7	1.2	11.1
GAF	June	7-9-76	13.2	3.0	-1.0	6.9
Auto sales, total (mil. units) 2/	June	7-5-76	10.5	4.5	1.6	20.7
Domestic models	June	7-5-76	9.1	7.1	2.2	29.3
Foreign models	June	7-5-76	1.4	-10.3	-2.2	-16.7
Housing starts, private (thous.) 2/	May	6-16-76	1,415	2.5	-8.5	30.4
Leading indicators (1967=100)	May	6-29-76	109.2	1.4	3.1	13.0

1/ Actual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

There have been further signs of a moderating pace of economic growth of late, but an upturn in consumer spending suggests that the advance of business activity should soon pick up again. Growth in production and employment slowed substantially in June as a result of the recent weakness in retail sales and a build-up of nondurable goods inventories earlier this year. Most seriously affected were production and employment in nondurable goods manufacturing. This rapid adjustment to rising stocks has kept inventories from ballooning, and retail sales picked up briskly in June, following the May decline. Price and wage developments continue to be generally favorable, but increases for fuel and metal products pushed wholesale industrial prices up more in June than in other recent months.

Consumer sales appear to have broken out of their recent slump in June. The advance estimate indicates that total retail sales rose 2.7 per cent, on a seasonally adjusted basis, with all major categories of stores participating in the gain. The largest increase occurred in the automotive group. Even excluding autos, the monthly advance in sales was greater than 2 per cent. Sales at stores in the GAF group (general merchandise, apparel, and furniture and appliances) were up 3.0 per cent in June. In view of the recent cutback in employment and production by nondurable goods manufacturers, the sharp advance in nondurable goods sales--2.2 per cent--is most encouraging. Sales at food stores and apparel stores were up well over 1 per cent; in addition, sales at gasoline stations and general merchandise stores were up 2.3 and 4.0 per cent, respectively.

RETAIL SALES
(Seasonally adjusted, percentage change from previous period)

	1975	1976		1976			
	III-IV	IV-I	I-II	Mar.	April	May	June
Total sales	2.2	3.3	1.7	1.4	.7	-2.1	2.7
(Real*)	(1.0)	(3.0)	n.a.	(1.5)	.3	-2.9	n.a.
Total, less auto and nonconsumption items	1.6	1.9	1.1	2.0	-.6	-1.0	2.1
GAF	2.8	1.4	-.1	2.1	-3.1	-.8	3.0
Durable	4.4	6.4	3.2	.0	3.7	-4.4	3.7
Auto	4.9	8.7	5.3	-1.8	5.3	-4.8	6.1
Furniture and appliances	5.1	1.0	2.0	2.4	-.1	-1.0	1.0
Nondurable	1.2	1.9	1.0	2.1	-.8	-.9	2.2
Apparel	.7	2.8	-3.0	.3	-6.2	2.6	1.6
Food	1.0	2.0	.7	1.3	-1.0	.8	1.3
General merchandise	2.7	1.1	.1	2.4	-3.1	-1.7	4.0
Gasoline	-1.2	3.0	.2	.8	-.2	-1.3	2.3

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

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

	1975		1976	1976					
	III	IV	I	Jan.	Feb.	Mar.	Apr.	May	June
Total auto sales	9.2	9.2	10.1	9.6	10.2	10.4	10.5	10.0	10.5
Imports	1.7	1.3	1.3	1.2	1.4	1.4	1.5	1.5	1.4
Domestic	7.5	7.9	8.7	8.4	8.7	8.9	9.0	8.5	9.1
Large	4.3	4.4	5.1	4.9	5.1	5.4	5.5	5.2	5.5
Small	3.2	3.6	3.5	3.5	3.6	3.5	3.4	3.2	3.6

Revised sales figures for April now show a gain of 0.7 per cent, rather than the slight decline previously indicated. However, the preliminary figure for May shows a sharper decline than reported earlier. The net result for the second quarter as a whole is an increase in sales of 1.7 per cent--about half the first quarter growth rate. Much of the quarters' strength came from the automobile group, and an abnormal decrease in auto scrappage rates in the year ending last July suggests that replacement demand should continue strong in the near future. Excluding autos and nonconsumer items, the second quarter gain was 1.1 per cent, down from a 1.9 per cent rise in the first quarter.

The advance in the newly revised industrial production index is tentatively estimated to have slowed to 0.3 per cent in June--probably reflecting repercussions of the weak retail sales in May and earlier industrial build-ups of nondurable goods inventories. Increases in the output of durable materials and business equipment were partially offset by weakness in consumer nondurables and nondurable materials. Auto assemblies rose by 1.9 per cent in June, and recently announced production schedules call for further increases in the current quarter.

Industrial production in the second quarter increased by 7.4 per cent at a compound annual rate--a considerable moderation from the 12.6 per cent increase of the first quarter. However, the second quarter did show a more rapid increase in production of business equipment, which accelerated from a 7.9 per cent annual rate rise in the first quarter to 9.7 per cent in the second. The new June index is estimated to be about 16 per cent above its low of March 1975 and only 1-1/2 per cent below its pre-recession high.

The recent slowing in the pace of industrial expansion has been paralleled by sluggish employment growth. Nonfarm payroll employment (adjusted for strike activity) was unchanged in June after little growth in May. Thus, two stagnant months have followed five months of vigorous expansion. The recent weakness is most apparent in nondurable manufacturing where widespread cutbacks caused about 50,000 jobs to be lost in the last two months--more than 100,000 including those on strike in the rubber industry. So far there is little discernible spillover to other industries from this strike. The vigorous increases in durable manufacturing employment evident between last November and April have also tapered off. Overall, only 40 per cent of private nonfarm industries increased employment in June--the lowest proportion in a year.

The seasonally adjusted unemployment rate rose 0.2 per cent to 7.5 per cent in June, reflecting some growth in the civilian labor force and a decline in total household employment. However, problems with seasonal adjustment continue to distort the picture. This year's seasonal adjustments appear to have exaggerated the decline in unemployment earlier this year and the subsequent June rise. Current dollar personal income continued to rise vigorously in May despite the strike-diminished growth of manufacturing wage and salary disbursements.

A slow rate of advance continues in the residential construction sector. Private housing starts rose by only 2-1/2 per cent in May to a seasonally adjusted annual rate of 1.42 million units, and for the second quarter as a whole starts will probably average only slightly above the 1.4 million rate of the first quarter. The improvement in May was

NONFARM PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	Average Monthly Change				
	June 75- Nov. 75	Nov. 75- Apr. 76	Apr. 76- June 76	Apr. - May	May - June
Total	246.2	277.8	12.5	1.0	24.0
(Strike adjusted)	(238.8)	(279.6)	(47.5)	(95.0)	(0.0)
Construction	3.4	-2.0	-3.0	8.0	-14.0
Manufacturing	76.4	98.2	-36.0	-17.0	-55.0
(Strike adjusted)	(80.0)	(98.2)	(-12.5)	(45.0)	(-70.0)
Durable	25.2	69.4	17.5	40.0	-5.0
Nondurable	51.2	28.8	-53.5	-57.0	-50.0
Trade	26.6	86.8	5.0	-9.0	19.0
Services and Finance	72.6	71.0	43.5	29.0	58.0
Total Government	56.8	19.8	0.5	-3.0	4.0
State and Local	52.2	26.0	7.0	0.0	14.0

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974	1975		1976		
	June	May	June	April	May	June
Total	5.3	8.9	8.7	7.5	7.3	7.5
Men, 20 years and older	3.5	7.2	7.0	5.4	5.6	6.0
Women, 20 years and older	5.1	8.4	8.2	7.3	6.8	7.1
Teenagers	16.3	20.3	20.7	19.2	18.5	18.4
Household Heads	3.0	6.1	6.1	4.8	4.8	5.1
Married Men	2.5	5.7	5.5	3.9	4.0	4.4
White	4.8	8.3	8.0	6.7	6.6	6.8
Negro and other races	9.2	14.2	14.0	13.0	12.2	13.3
State Insured*	3.3	7.0	6.7	4.2	4.3	4.5

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

Unemployment Rate

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

PERSONAL INCOME
(Per cent change from preceding period, compound annual rate; seasonally adjusted)

	Nov. 73-July 75	July 75-May 76	Mar. 76-Apr. 76	Apr. 76-May 76
Current Dollars				
Personal Income	7.7	11.0	9.6	10.3
Wage and Salary Disbursements	5.6	11.3	10.7	10.8
Private	4.6	12.3	12.0	11.7
Manufacturing	1.3	14.8	13.2	8.0
Transfer Payments	24.4	8.1	-9.6	-3.7
Addenda:				
Total Nonfarm Income	8.5	10.9	7.8	8.0
Total Farm Income	-12.2	15.2	88.7	117.8
Constant Dollars*				
Personal Income	-2.5	5.5	4.2	2.7
Wage and Salary Disbursements	-4.4	5.7	5.3	3.2
Addenda:				
Total Nonfarm Income	-1.7	5.3	2.6	.6
Total Farm Income	-20.5	9.4	79.5	102.9

* Deflated by the consumer price index, seasonally adjusted.
NOTE: November 1973 was the specific high and July 1975 was the specific low for deflated wage and salary disbursements.

concentrated in the multifamily sector. Single-family starts remain high despite some slippage in May. Total residential building permits rose a bit further in May to their highest level in two years. Though they are no longer rising, existing home sales remained quite high in May. The more volatile series measuring new home sales fell sharply in May; it is likely that part of the decline reflected seasonaly adjustment problems.

The book value of total manufacturers' inventories rose at a $12.5 billion annual rate in May after having fallen at a $0.3 billion rate in April. The increase for the two months together was in line with the $6.3 billion rate of rise of the first quarter. Durable stocks resumed the accumulation seen in the first quarter after a slight April runoff. Nondurable goods inventories also rose substantially in May adding to the accumulation of the first quarter.

Despite the inventory accumulation in May, the inventory-shipments ratio for manufacturers was unchanged. Thus, the slowdown in industrial production in May and June (especially in nondurable manufacturing) seems to reflect a continuation of conservative policies designed to keep stocks in line with shipments. Inventories at all stages of processing--materials and supplies, work-in-process, and finished goods--rose in May. The book value of wholesale trade inventories also rose sharply in May--by $9.9 billion, at an annual rate. Retail inventory data for May are not yet available, but the sharp decline in retail sales that month could indicate an unintended build-up in this sector as well.

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

	1975			1976			Per cent change in May from:	
	QII	QIII	QIV	QI(r)	Apr.(r)	May(p)	Month ago	Year ago
All units								
Permits	.90	1.04	1.06	1.13	1.10	1.16	+ 6	+27
Starts	1.05	1.26	1.37	1.40	1.38	1.42	+ 2	+30
Under construction 1/	1.05	1.04	1.04	1.05	1.06	n.a.	+ 1*	- 2*
Completions	1.24	1.28	1.28	1.30	1.26	n.a.	- 9*	+ 1*
Single-family								
Permits	.65	.74	.77	.84	.81	.82	+ 1	+25
Starts	.83	.95	1.03	1.12	1.06	1.06	- 1	+24
Under construction 1/	.52	.53	.56	.59	.60	n.a.	+ 1*	+16*
Completions	.81	.91	.91	.97	.98	n.a.	- 4*	+25*
Multifamily								
Permits	.25	.30	.29	.29	.28	.34	+20	+33
Starts	.22	.31	.33	.28	.32	.36	+13	+54
Under construction 1/	.53	.51	.48	.46	.46	n.a.	--*	-19*
Completions	.43	.37	.37	.33	.28	n.a.	-24*	-39*
MEMO:								
Mobile home shipments	.20	.22	.23	.27	.24	.26	+10	+25

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

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

HOME SALES

	New Homes Sales and Stocks (thousands of units) Homes Sold 1/	Homes for sale 2/	Months' supply	Sales Indexes of Unit Volume (1972=100, seasonally adjusted) New homes 3/	Existing homes	Median Prices of Homes Sold (thou. of dollars) New homes	Existing homes
1975							
QI	438	395	10.8	61	93	38.1	33.8
QII	554	379	8.2	77	105	39.0	35.4
QIII	564	384	8.2	79	111	38.8	36.1
QIV	637	378	7.1	89	126	41.2	35.6
1976							
QI (r)	609	384	7.6	85	121	42.8	36.6
1975							
Oct.	610	389	7.7	85	122	40.7	35.4
Nov.	660	381	6.9	92	126	41.1	35.7
Dec.	641	378	7.1	89	131	42.1	35.8
1976							
Jan.	573	379	7.9	80	116	41.6	36.3
Feb. (r)	679	384	6.8	95	122	42.7	36.2
Mar. (r)	574	389	8.1	80	124	43.7	37.2
Apr. (r)	628	394	7.5	87	124	43.7	37.7
May (p)	514	399	9.3	72	125	43.2	37.6

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.
3/ Converted to 1972 index for comparison with existing home sales, which are not available on any other basis.

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

	1975			1976		
	II	III	IV	I	Apr.	May
Manufacturing and trade	-18.8	5.4	-1.3	19.3	11.6	n.a.
Manufacturing	-12.5	-6.6	.6	6.3	-.3	12.5
Durable	-4.3	-8.6	-3.5	1.8	-.7	5.3
Nondurable	-8.2	2.0	4.2	4.5	.4	7.2
Trade, total	-6.3	11.9	-1.9	13.0	11.9	n.a.
Wholesale	-2.7	3.1	-2.0	5.0	5.1	9.9
Retail	-3.6	8.8	.1	8.0	6.8	n.a.
Auto	-1.7	5.5	.3	-.5	-.4	n.a.

INVENTORY RATIOS
(Book values)

	1973	1974	1975	1976		
	I	I	I	I	Apr.	May
Inventories to sales:						
Manufacturing and trade	1.47	1.49	1.66	1.48	1.45	n.a.
Manufacturing	1.60	1.63	1.92	1.63	1.58	1.58
Durable	1.91	2.05	2.50	2.09	2.01	1.99
Nondurable	1.23	1.18	1.32	1.15	1.13	1.14
Trade, total	1.34	1.35	1.42	1.33	1.32	n.a.
Wholesale	1.20	1.10	1.26	1.19	1.18	1.21
Retail	1.42	1.52	1.57	1.42	1.42	n.a.
Inventories to unfilled orders:						
Durable manufacturing	.802	.699	.803	.846	.845	.838

New Commerce data recently became available on constant dollar inventory/sales ratios through the first quarter of the year. Viewed in these terms, manufacturing and trade inventories are higher relative to sales than the book value ratios had indicated. The reason for the difference is that a large proportion of inventories is recorded in book values at old prices which bias the value of the stock downward in periods of inflation. In real terms, nondurable manufacturing and nondurable wholesale inventories appear to be at about a normal level in relation to sales. The nondurable retail inventory-sales ratio is low relative to trend, but not as low as the book value ratio suggests. The durable manufacturing and wholesale trade constant dollar ratios appear to be somewhat high by historical standards, while the ratio for durables at retail is a bit low in historical perspective.

The outlook for business fixed investment remains positive. New orders for <u>nondefense capital goods</u> rose 1.6 per cent in May. This series now has risen for five consecutive months and stands above the December 1975 level by 15 per cent in current dollars and by about 13 per cent in real terms. In constant dollars, orders are still a fourth below their previous peak. New orders for nondefense capital goods slightly exceeded shipments in May, so that unfilled orders rose for the first time in nineteen months.

Contracts data--a leading indicator of nonresidential construction investment--suggest that the recovery in this area continues to be concentrated in the nonbuilding components. While the value of such construction contracts are 18 per cent above their monthly average for 1975, contracts for manufacturing and commercial buildings have yet to show any strength. Building contracts (measured in square feet of floor space) were relatively unchanged in April and May, and thusfar in 1976, the monthly average of new contracts is only equal to the depressed level of 1975.

NEW ORDERS RECEIVED BY MANUFACTURERS
(Seasonally adjusted; percentage change from preceding period)

	1975		1976	1976					May 1975 to May 1976 2/
	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.	May	
Total Durable Goods									
Current Dollars	7.3	1.0	7.0	.8	4.2	6.5	-.1	4.5	26.4
1967 Dollars 1/	6.7	-1.6	5.5	.3	4.0	5.9	-.3	4.1	19.5
Nondefense Capital Goods									
Current Dollars	1.9	0.6	1.6	1.9	3.5	2.6	5.0	1.6	13.7
1967 Dollars 1/	.7	-1.3	.1	1.2	3.0	2.3	4.5	1.3	7.6

1/ FR deflation by the appropriate wholesale price index.

2/ Per cent change, not at a monthly rate.

CONSTRUCTION CONTRACTS FOR COMMERCIAL AND INDUSTRIAL BUILDING
(Seasonally adjusted percentage change from preceding period)

	1975		1976	1976					May 1975 to May 1976
	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.	May	
Total _/	-4.1	.6	-8.6	-24.1	7.5	31.4	-.7	1.3	22.2
Commercial	-1.	4.5	.9	-9.2	.7	12.3	-8.7	4.9	20.9
Industrial	-8.0	11.8	-13.4	-30.4	24.3	-4.7	25.0	-6.8	15.0

1/ Components are seasonally adjusted by FR and may not add to total which is seasonally adjusted by Census.

Government purchases have added only modest strength to the recovery in recent months. Indicators of state and local spending have slowed down after several months of healthy increases. According to preliminary estimates, state and local employment has grown very little during May and June. Furthermore, the value of construction put-in-place declined in June on a seasonally adjusted basis. Nevertheless, the underlying fiscal position of the sector is improving as the recovery brings in much needed revenues.

Recent Treasury Department data suggest that Federal cash outlays--particularly for defense and income maintenance--were unusually weak in the final months of fiscal year 1976. Federal spending on a unified budget basis is now expected to be about $368 billion, roughly $4 billion below the level forecast by the Administration in late May and $7 billion under the Congressional budget target. This decline in outlays partly reflects lower income support payments. However, it also may have been due to legislation permitting government agencies to carryover into the third quarter unobligated balances which usually expire at the end of a fiscal year--a one-time measure to facilitate the transition to the new fiscal year starting date, October 1. Much of the expenditure shortfall should be made up in the current (transition) quarter, as agencies attempt to spend the allocated funds before the new fiscal year begins. In addition, income support payments will be boosted beginning in July by a 6.4 per cent cost-of-living increase for social security recipients.

For fiscal 1977, outlays and the deficit are now forecast at $410 billion and $57 billion, respectively--both about $2 billion below the levels in the last Greenbook. Downward adjustments in income security and interest payments suggested the revision in spending. Federal receipts are projected at $353 billion for fiscal year 1977. The staff continues to assume that last year's tax reductions will be permanently extended once Congress resolves the difficult issue of tax reform. However, no revenue gains from reform have been projected, given current legislative uncertainties.

On a full employment budget basis, our projection continues to indicate a shift toward restraint. After registering a $6 billion deficit in calendar year 1976, the full employment budget moves close to balance during calendar year 1977.

Overall inflationary pressures have been less than generally expected. Wage increases continued to be moderate during the second quarter of 1976. The private nonfarm hourly earnings index, which excludes the effect of interindustry shifts in employment and overtime pay in manufacturing, rose at an annual rate of 3.3 per cent in June and at a 6.3 per cent rate from the first to the second quarter. However, earnings could easily escalate in the second half of the year when there will be more new wage settlement activity as well as numerous deferred and cost of living increases.

The capacity utilization series for materials which has been expanded from 15 "major materials" to all 96 materials in the

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

	1975		1976		June 75-	Dec. 75-	May 76-
	QIII	QIV	QI	QII	June 76	June 76	June 76 1/
Private Nonfarm	8.6	8.3	6.4	6.3	7.0	6.4	3.3
Construction	6.6	4.4	4.8	8.6	6.0	6.9	7.2
Manufacturing	8.6	8.3	6.8	6.2	7.2	6.5	5.7
Trade	8.7	6.4	4.7	5.5	5.8	5.7	-0.6
Services	7.3	10.6	8.3	5.9	7.5	6.7	3.7
Transportation & Public Utilities	12.9	11.7	8.1	7.9	9.7	8.8	3.7

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

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

Materials Capacity Utilization

	1973 Qtr. High	1975 Qtr. Low	1976 QIp	QIIe
Total materials	92.9	70.6	78.9p	80.2
Durable goods materials	92.3	64.4	73.1	75.4
Basic metal material	97.5	67.2	73.5	--
Nondurable goods materials	94.0*	70.0	85.7	85.2
Textile, paper, chemical materials	94.1	68.0	85.2	--
Textile materials	94.6	60.9	85.7	--
Paper and pulp	99.5	73.4	89.8	--
Chemical materials	92.7	67.2	83.8	--
Energy materials	94.1	84.3	85.3	85.4

*First Quarter 1974.

index of industrial production, was at a rate of about 80 per cent in the second quarter. This compares to 92.9 per cent at the cyclical high in the fourth quarter of 1973. These data suggest that prices do not seem to be threatened by lack of capacity to produce materials in most of the areas where bottlenecks have previously occurred. The present rate of utilization does, however, represent a significant recovery from the cyclical low of 70.6 per cent in the second quarter of 1975. As with industrial production, employment, and inventory behavior, there exists a sharp contrast between the ratios of capacity utilization in the durable and nondurable materials industries. Utilization in durable goods material plants is estimated at 75 per cent in the second quarter, but should be rising as equipment production expands and durable inventories increase. The spurt in the production of nondurable goods materials early in the year brought its capacity utilization to 85 per cent in the second quarter of 1976.

Wholesale prices increased by 0.4 per cent (seasonally adjusted, not at an annual rate) from May to June as prices of industrial commodities accelerated while price increases for farm and food products moderated. Industrial commodities were up 0.5 per cent, largely reflecting higher prices for steel mill products, gasoline, and machinery and equipment. The third consecutive monthly rise for farm and food products--0.4 per cent in June--reflected increases for manufactured animal feeds, soybeans, cotton, and

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to Apr. 76	Apr. 76 to May 76
All items	100.0	7.0	2.9	5.0	7.1
Food	24.7	6.5	-7.9	6.7	11.4
Commodities (nonfood)	38.7	6.2	2.9	3.9	7.0
Services	36.6	8.1	10.6	5.4	5.4
Memo:					
All items less food and energy2/3/	68.1	6.7	7.7	6.6	6.6
Petroleum products2/	4.5	10.1	-15.7	-5.9	7.9
Gas and electricity	2.7	14.2	6.4	2.6	13.1

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

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

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Mar. 76	Mar. 76 to June 76	May 76 to June 76
All commodities	100.0	20.9	0.5	11.7	0.0	6.6	5.3
Farm and food products	22.8	11.0	-5.6	16.9	-14.1	18.0	4.5
Industrial commodities	77.2	25.6	3.0	9.9	5.3	3.6	6.0
Excluding fuels and related products and power	66.9	22.5	2.6	6.6	7.2	3.6	8.4
Materials, crude and intermediate2/	48.3	28.2	2.0	8.4	6.2	4.3	8.9
Finished goods							
Consumer nonfoods	18.6	20.5	3.8	11.3	3.2	2.3	7.5
Producer goods	11.8	22.6	8.7	8.6	6.5	3.3	4.[illegible]
Memo:							
Consumer foods	11.1	13.0	5.0	10.6	-13.8	16.8	-11.0

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

coffee and cocoa. Declines for cattle, meats, fresh fruits and vegetables, and sugar were partially offsetting.

Prices at the early stages of processing rose rapidly in June. Crude materials (excluding food) rose 1.4 per cent, reflecting higher prices for natural gas (lagged 2 months) and scrap metals. The index of nonfood intermediate materials increased 0.7 per cent as steel mill, plywood, and textile products moved up. Nonfood consumer finished goods rose by 0.6 per cent, and the producers finished goods index was up by 0.4 per cent.

On the consumer front, prices rose by 0.6 per cent from April to May on a seasonally adjusted basis. This increase in the consumer price index was more rapid than previous months this year when food and gasoline prices dampened the over-all rise in the index. During the first quarter declines in these items held the rise in consumer prices to a 3 per cent annual rate. If food and energy items are excluded, the May rate of rise is close to the rates of the past 12 months.

Meats were responsible for most of the May increase in food prices, reflecting earlier rises in livestock prices. Since livestock prices have not been increasing since April, meat prices are not likely to rise much in the next month or two. Coffee prices rose again in May, and price increases in commodity markets and at the wholesale level suggest continued further pressures. Over the past year coffee prices have risen by 35 per cent, representing about 16 per cent of the total advance in the index for food.

Nonfood commodity prices were also up in May. Gasoline prices reversed their earlier 1976 declines, and apparel and other nondurable increases were larger than those of recent months. Used cars rose another 2 per cent from April to May. Conversely, service price increases continued to moderate in May. This abatement reflected the smaller rises in the medical component as well as a drop in mortgage interest rates. In addition, the rapid increases in service prices that reflected extraordinary adjustments in auto insurance, public transport, and postal rates have recently diminished.

Federal Sector Accounts
(billions of Dollars)

	Fiscal Year 1976 e/		Fiscal Year 1977 e/			CY 1976	F.R.B. Estimates: Calendar quarters; unadjusted data					
	Admin. est. 1/	F.R. Board	Admin. est. 1/	Cong. est. 2/	F.R. Board	F.R. Board	1976 I*	II	III 3/	IV	1977 I	II
Unified budget receipts	299.6	299.6	351.5	362.5	352.5	317.2	66.9	93.3	82.1	75.0	77.8	106.6
Unified budget outlays	372.2	368.0	397.2	413.3	410.0	382.9	89.6	93.8	100.5	99.0	101.2	104.0
Surplus/deficit (-), unified budget	-72.6	-68.4	-45.7	-50.8	-57.5	-65.6	-22.7	-.5	-18.4	-24.0	-23.4	2.6
Surplus/deficit (-), off-budget agencies 4/	-9.3	-8.8	-11.1	n.a.	-11.1	-14.1	-3.8	-1.5	-4.7	-4.1	-3.0	-1.0
Means of financing combined deficits:												
Net borrowing from public	82.4	82.4	55.1	n.a.	63.3	77.2	24.1	9.0	15.5	28.6	21.8	1.0
Decrease in cash operating balance	-7.2	-7.2	8.8	n.a.	4.8	-.3	.5	-6.8	5.4	.6	-.1	-1.1
Other 5/	6.7	2.0	-7.1	n.a.	.5	2.8	1.8	-.2	2.3	-1.0	4.7	-1.5
Cash operating balance, end of period	14.8	14.8	6.0	n.a.	10.0	8.8	8.0	14.8	9.4	8.8	8.9	10.0
Memo: Sponsored agency borrowing 6/	5.1	3.1	10.8	n.a.	n.e.	2.6	.3	.3	.8	1.2	n.e.	n.e.
NIA Budget							Seasonally adjusted, annual rates					
Receipts	307.4	306.4 7/	364.7	n.a.	355.3	326.1	312.7	320.4	330.8	340.6	351.8	360.5
Outlays	378.7	376.0	404.5	n.a.	418.0	391.3	381.3	384.7	394.9	404.3	414.4	421.4
Surplus/deficit (-)	-71.3	-69.6	-39.8	n.a.	-62.7	-65.2	-68.6	-64.3	-64.1	-63.7	-62.5	-60.9
High Employment surplus/deficit(-) (NIA basis) 8/9/	n.a.	-8.0	n.a.	n.a.	-2.3	-6.3	-11.7	-5.0	-4.9	-3.4	-4.7	-.8

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

1/ Treasury statement, June 24, 1976.
2/ First Concurrent Resolution on the Budget, April 29, 1976
3/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30. Hence, 1976 QIII represents a transition quarter.
4/ Includes Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation
5/ Checks issued less checks paid, accrued items and other transactions
6/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives
7/ Quarterly average exceeds fiscal year total by $.7 billion for FY 1976 due to spreading of wage base effect over calendar year
8/ Estimated by F.R.B. staff
9/ The high employment budget estimates now fully incorporates taxes on inventory profits beginning 1973.

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	June	34.34	7.2	4.0	-.4
Nonborrowed reserves	June	34.22	6.8	3.1	-.1
Money supply					
M1	June	303.0	-1.2	6.7	4.1
M2	June	700.2	5.2	9.8	9.0
M3	June	1158.3	7.4	11.0	11.4
Time and savings deposits (Less CDs)	June	397.2	10.1	13.7	13.0
CDs (dollar change in billions)	June	70.6	2.4	-2.6	-1.1
Savings flows (S&Ls + MSBs + credit unions)	June	458.2	11.1	12.8	15.2
Bank credit (end of month)	June	743.2	2.1	4.3	4.7

Indicator		Period	Level	Month ago	Three months ago	Year ago
Market yields and stock prices			Percentage or index points			
ederal funds	wk. endg.	7/7/76	5.37	-.07	.64	-.69
reasury bill (90 day)	"	7/7/76	5.38	-.08	.44	-.68
Commercial paper (90-119 day)	"	7/7/76	5.75	-.13	.55	-.53
New utility issue Aaa	"	7/9/76	8.60	-.11	--	-.78
Municipal bonds (Bond Buyer)	1 day	7/8/76	6.78	-.08	.13	-.20
FNMA auction yield	(FHA/VA)	7/12/76	9.05	-.09	.11	-.05
Dividends/price ratio (Common stocks)	wk. endg.	7/7/76	3.62	-.24	-.02	-.30
NYSE index (12/31/65=50)	end of day	7/12/76	56.54	2.53	2.63	8.35

Credit demands		Net change or gross offerings: Current month 1976	Current month 1975	Year to date 1976	Year to date 1975
Business loans at commercial banks	June	-.4	-1.9	-4.3	-6.4
Consumer instalment credit outstanding	May	1.5	-.3	6.9	-.4
Mortgage debt outst. (major holders)	April	4.3	3.1	17.4	11.0
Corporate bonds (public offerings)	June	3.0e	3.9	14.9e	21.4
Municipal long-term bonds (gross offerings)	June	2.9e	3.1	17.1e	15.3
Federally sponsored Agcy. (net borrowing)	June	.4	.6	.8	-.4
U.S. Treasury (net cash borrowing)	July	5.6	7.8	38.7	43.9
Total of above credits		17.3	16.3	91.5	84.4

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Most market rates of interest have declined somewhat since the June 22 FOMC meeting. During the early part of the intermeeting period, market sentiment was bolstered by incoming data indicating slow growth in the monetary aggregates--particularly M_1--and a moderating pace of expansion in economic activity. In this environment the bond markets were able to absorb a sizable volume of new issues at stable yield levels. More recently, a downward movement in the Federal funds rate from 5-1/2 per cent to 5-1/4 per cent, occurring as near-term financing calendars lightened, has sparked a rally in the money and capital markets.

Yields on short-term market instruments on balance have fallen by about 20 to 35 basis points since the June Committee meeting, while most bond rates have eased about 10 basis points. In the primary market for home mortgages, the average interest rate on new loan commitments has edged a bit higher since mid-June.

Data for the month of June confirm the emergence of several new developments in financial flows first noted in the last Greenbook. In addition to maintaining a strong pace of long-term financing, domestic business firms expanded their short-term indebtedness to a modest extent for the second consecutive month. With the rate spread between bank and open market credit sources widening, businesses focused their demands for short-term funds in the commercial paper market. Even so, total bank credit continued to expand slowly,

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

	June '75 FOMC June 17	Apr. '76 FOMC Apr. 20	May '76 FOMC May 18	June '76 FOMC June 22	June 29	July 6	July 13
Short-term							
Federal funds 1/	5.31	4.78	5.28	5.48	5.58	5.37	5.27 5/
Treasury bills							
3-month	5.03	4.73	5.28	5.38	5.37	5.39	5.15
6-month	5.36	5.08	5.73	5.75	5.76	5.69	5.45
1-year	5.61	5.42	6.03	6.08	6.08	5.98	5.72
Commercial paper							
1-month	5.25	4.75	5.25	5.63	5.38	5.50	5.25
3-month	5.50	5.00	5.50	5.88	5.63	5.75	5.50
Large neg. CD's 2/							
3-months	5.50	5.05	5.63	5.88	5.70	5.75	5.50
6-months	5.88	5.45	6.15	6.15	6.15	6.15	5.80
Federal agencies							
1-year	6.20	5.84	6.65	6.57	6.58	n.a.	n.a.
Bank prime rate	7.00	6.75	6.75	7.25	7.25	7.25	7.25
Long-term							
Corporate							
New AAA 1/	8.95	8.42	8.82	8.69	8.70	8.72	8.60p
Recently offered 3/	9.22	8.44	8.78	8.70	8.74	8.73	8.61p
Municipal (Bond Buyer) 4/	6.80	6.54	6.83	6.85	6.87	6.87	6.78
U.S. Treasury (20-year constant maturity)	7.96	7.82	8.13	7.99	8.06	7.98	7.95p
Stock prices							
Dow-Jones	828.61	1003.46	989.45	997.63	1000.65	991.81	1006.06
N.Y.S.E.	48.22	54.76	53.92	55.14	55.46	55.32	56.43
AMEX	89.10	103.07	104.43	104.70	105.09	105.26	106.94
Keefe Bank Stock	525	589	591	626	621	622	618

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending July 14.
n.a.--not available.
p--preliminary.

and banks increased their CD and reservable nondeposit liabilities--thereby more than offsetting declines in savings accounts and private demand deposits. Deposit growth at thrift institutions also slackened in June, but perhaps not as sharply as did inflows to similar accounts at commercial banks.

Monetary Aggregates and Bank Credit

M_1 expanded at an annual rate of nearly 8-1/2 per cent in the second quarter. However, since rising strongly in April, it has fluctuated along an essentially sideways course, and the average daily level in June was actually slightly below that in May. Although it is impossible to account conclusively for the sluggish behavior of M_1 in May and June, a number of possible explanatory factors can be noted. It seems likely, for example, that there has been a gradual readjustment of cash balances to desired levels following the earlier upsurge in M_1.[1/] Moreover, empirical money demand relations suggest that the rise in interest rates since mid-April may have damped monetary expansion to a minor extent. During June, M_1 may also have been depressed temporarily by deposit drains associated with what appears to have been unusually heavy corporate reliance on asset liquidations to finance tax payments and by a smaller than usual bulge in Federal outlays at the end of the fiscal year. (Average U.S. Government deposits rose $2.4 billion, seasonally adjusted, in

1/ Data on demand deposit ownership at large banks suggest that consumer-held demand balances--which had risen rapidly in March and April--declined sharply in May, while business accounts rose.

the month.) Finally, demand deposits at commercial banks likely were affected slightly by transfers of funds to newly-authorized checking accounts at New York mutual savings banks; net inflows to these new accounts totaled $44 million during June.[2/]

Whatever its cause, the flatness in M_1 was the major factor behind the slowing of M_2 and M_3 growth to rates of 5.2 and 7.4 per cent, respectively, in June. However, diminished inflows of interest-bearing deposits also contributed to the reduction in the growth of these broader aggregates. At commercial banks, savings deposits are estimated to have contracted slightly on a seasonally adjusted basis.[3/] This weakness evidently represents a reversal of the inflows of interest-sensitive funds that occurred earlier in 1976; several bankers contacted in a telephone survey reported that depositors have shifted funds to market securities and to CD's, including large nonnegotiable certificates that are a part of the time deposit component of M_2. Indeed, the time deposit component of M_2 (excluding savings) increased in June at the most rapid rate in two years, apparently reflecting the strength in large time deposits.

2/ Total demand deposits at these institutions were $101 million at the end of June, but $57 million represented transfers from pre-existing "POW" accounts.

3/ Data from weekly reporting banks indicate that, on an unadjusted basis, savings deposits of domestic governmental units registered the largest decline over the month; deposits of individuals and nonprofit institutions also posted a noticeable decline, while business savings fell only slightly.

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975	1976					Twelve months ending
	HII	HI	QI	QII	May	Junep	June 1976
				Per cent at annual rates			
M_1 (currency plus demand deposits)	4.7	5.5	2.6	8.4	6.4	-1.2	4.1
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.3	10.8	10.1	11.2	9.2	5.2	9.0
M_3 (M_2 plus deposits at thrift institutions)	11.5	12.0	11.4	12.2	10.6	7.4	11.4
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	-4.6	16.3	3.1
Total time and savings deposits at commercial banks	7.3	7.1	7.8	6.2	1.0	15.1	7.4
a. Other than large negotiable CD's	11.4	15.1	15.9	13.7	11.4	10.1	13.0
1. Savings deposits	17.0	25.8	28.3	21.7	18.3	-0.7	20.7
2. Time deposits	7.4	6.9	6.7	7.0	5.6	19.0	7.4
Deposits at nonbank thrift							
a. Savings and loan associations	18.2	15.4	15.0	15.3	14.5	12.2	16.9
b. Mutal savings banks	11.9	9.7	9.1	10.1	10.3	9.2	10.6
c. Credit unions	18.6	14.5e	16.8	11.7e	6.9e	6.9e	15.8e
				Billions of dollars (Based on seasonally adjusted monthly data, not annualized)			
Memoranda:							
a. Total U.S. Government deposits	0.3	0.4	1.1	-0.4	0.2	2.4	0.3
b. Negotiable CD's	-0.2	-2.1	-3.2	-0.9	-3.2	2.4	-1.1
c. Nondeposit sources of funds	0.2	--	-0.1	0.1	0.1	0.8	0.1

1/ Half-year and quarterly growth rates are based on quarterly average data.
2/ Twelve months ending April 1976.

Making rough allowance for the inflows of large time deposits at commercial banks, inflows of savings and consumer-type time deposits taken together probably weakened somewhat more at commercial banks than at thrift institutions. Nevertheless, measured on a month-end basis, deposit growth at savings and loan associations and mutual savings banks fell to a 9-1/2 per cent annual rate in June from 13-1/2 per cent in May. This is a more pronounced deceleration than would seem explicable by the movement of market rates of interest relative to deposit rate ceilings. An additional influence may have been efforts of thrift institutions in some areas to moderate inflows of high cost time deposits--possibly in response to high liquidity levels. Press reports (confirmed by staff contacts in the industry) indicate that, over the past several months, a number of institutions cut offering rates, increased minimum denominations, lengthened minimum maturities, and curtailed advertising--particularly for longer-term accounts.

The volume of large negotiable CD's outstanding increased $4 billion between mid-May and the end of June, on a seasonally adjusted basis. Quarter-end window dressing appears to have contributed importantly to this reversal of the earlier downtrend, but responses to the May Survey of Bank Lending Practices provide support for the view that some of the rise reflected positioning for an expected strengthening of business loan demand.[4/] The Euro-dollar liabilities

4/ A summary of the results of this survey will appear in an appendix to the Greenbook Supplement.

of member banks also increased in June, and the credit proxy rose markedly. Available information suggests that the rise in Euro-dollar borrowings was more the result of a coincidence of special factors than of a fundamental shift in liability management.

Total loans and investments of commercial banks increased at a 2 per cent annual rate in June, somewhat less than in the preceding two months.[5/] Once again, purchases of Treasury securities accounted for nearly all of the gain; total loans increased only marginally. Loans to nonbank financial institutions fell $900 million and those to commercial and industrial firms dropped $400 million; in addition, real estate loan growth slowed.

Business Finance

Business short-term credit outstanding rose at a 2-1/2 per cent annual rate in June, as a large increase in commercial paper issued by nonfinancial firms more than offset the decline in business loans at banks. For the April-June period as a whole, business short-term borrowing registered a modest net increase--the first quarterly advance since late 1974. At large banks, borrowing by trade and nondurable manufacturing firms was fairly strong in June, perhaps reflecting inventory accumulation in these sectors.

5/ The large discrepancy between the growth rates of bank credit (2.1 per cent SAAR) and the credit proxy (16.3 per cent SAAR) apparently is attributable in part to the difference between single day and daily average calculations--the increase in the proxy from the last week of May to the last week of June was $5.6 billion, as compared to the $7.0 billion change in the monthly averages. A decline in Federal funds purchases (a liability not included in the proxy) and a rise in certain cash assets (not included in bank credit) appear also to have contributed significantly to the divergence of the two aggregates.

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

	1975	1976					
	H2	H1	Q1	Q2	April	May	June
Total loans and investments2/	4.5	4.9	5.5	4.3	5.4	5.4	2.1
U.S. Treasury securities	22.1	36.8	44.3	26.3	24.5	40.0	12.9
Other securities	2.9	-1.0	-4.1	2.2	5.9	--	.8
Total loans2/	2.3	1.6	2.1	1.0	1.9	.7	.5
Business loans2/	-1.7	-4.9	-7.4	-2.2	-6.2	2.1	-2.8
Real estate loans	4.3	8.0	8.9	6.9	6.9	8.6	5.1
Consumer loans *	5.0	n.a.	3.7	n.a.	11.0	n.a.	n.a.
MEMO: Business loans plus nonfinancial commercial paper3/	-3.5	-1.7	-5.3	1.9	--	3.2	2.6

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

The further increase in business short-term borrowing occurred contemporaneously with a very large amount of capital market financing. Domestic firms sold $3 billion of new bonds in the public market during June, more than half of this total being accounted for by offerings rated A or lower. During the earlier months of the year, such lower-rated issues accounted for about 40 per cent of total public offerings, but the staff expects that they will preponderate over the remainder of 1976. The projected July and August borrowing volumes are well below the pace of the first half; some of this drop-off is seasonal, but conversations with underwriters suggest that many firms--particularly the larger, higher-rated ones--concentrated their long-term financing for this year in the first half in the expectation that bond rates would move upward later.

Equity financing activity, in contrast, is projected to slow only slightly in July and August from the average pace of the first half. Although utilities have accounted for about 60 per cent of the volume of common and preferred stock sold thus far this year, equity flotations by manufacturing firms have proceeded at a record rate. The major stock price indexes recently have been near or above their previous 1976 highs.

Other Securities Markets

As in the corporate market, some decline in the volume of new municipal bond financing from recent high levels appears in prospect for the third quarter. The Board staff projects July and

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

	1975		1976				
	Year	QIV	QIe/	QIIe/	Junee/	Julyf/	Aug.f/
			Gross offerings				
Corporate securities--Total	4,471	4,362	4,523	4,666	5,500	3,700	3,100
Publicly offered bonds	2,717	1,939	2,444	2,533	3,000	1,600	1,400
By quality1/							
Aaa and Aa	1,422	776	1,480	1,160	1,180	--	--
Less than Aa	1,295	1,163	964	1,373	1,820	--	--
By type of borrower							
Utility	925	783	630	780	1,065	--	--
Industrial	1,432	780	1,210	880	950	--	--
Other	360	376	604	873	985	--	--
Privately placed bonds	847	1,379	898	933	1,000	900	800
Stocks	907	1,044	1,181	1,200	1,500	1,200	900
By type of issuer							
Manufacturing	123	158	306	357	170	--	-
Utility and transp.	598	664	750	643	1,130	--	--
Other	186	221	125	200	200	--	--
Foreign securities	451	634	447	614	1,065	425	300
State and local government securities							
Long-term	2,544	2,252	2,781	2,902	2,900	2,200	2,000
Short-term	2,420	2,216	1,671	2,293	2,000	1,600	1,300
			Net offerings				
U.S. Treasury	7,564	8,048	7,897	2,540	4,259	5,500	5,000
Sponsored Federal agencies	187	390	414	-80	929	199	-298

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

August offerings averaging a shade over $2 billion--well below the $2.8 billion monthly average of the first half. There normally is a summer lull in primary market activity, but it may be somewhat accentuated this year because the funding of short-term debt that apparently helped to boost bond issuance in the first half should now be abating.

New York City paid down the balance of its debt to the Treasury by the end of the fiscal year and received a new loan of $500 million on July 1. This loan and future Federal credits are conditioned on further austerity measures by the City and satisfactory wage agreements with municipal unions. The offer of the Municipal Assistance Corporation to exchange its debt obligations for outstanding City notes--extended to July 21 following Moody's downgrading of certain MAC issues--has elicited little response from investors.

Since the last FOMC meeting, the Treasury has sold $2.5 billion of 5-year, 1-month notes and redeemed $800 million of maturing 3- and 6-month bills. Budget projections for the current transition quarter are subject to greater than usual uncertainty, but net sales of marketable Treasury obligations are likely to amount to somewhere between $12 and $16 billion--the precise sum depending in part on the extent to which the Treasury is willing to run down the nearly $15 billion cash balance it held on June 30, given the projected large deficit in the fourth quarter. The Board staff estimates that the Treasury will need to raise $5-1/2 billion in the market prior to the mid-August refunding. The Treasury is likely to continue emphasizing maturity lengthening in its debt management, and thus it probably will meet most of its cash needs through coupon issues.

<u>Mortgage Market and Consumer Credit</u>

Conditions in the residential mortgage market have been relatively stable since mid-June. Secondary market yields generally edged down, while the average rate on new loan commitments at S&L's rose slightly further. Loan demand apparently continues to be strong in many areas, and despite the recent slowing of deposit growth, S&L's seem generally to remain willing lenders. Any discomfort they may feel because of the deterioration in their over-all cash flows likely is eased by the fact that their liquid assets ($34 billion at the end of May) are high relative to their loan commitments ($22 billion), and their indebtedness to Home Loan Banks is much reduced from the peak levels of late 1974. The mortgage portfolios of S&L's rose $3.2 billion in May, seasonally adjusted--somewhat less than in the preceding two months, but still a substantial figure.

Extensions of consumer instalment credit declined moderately for the second consecutive month in May, probably reflecting the weakness in auto sales. However, repayments fell even more, and thus the volume of credit outstanding expanded at an annual rate of nearly 11 per cent--up slightly from the pace in April. All major categories, save mobile home credit, contributed to the expansion.

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

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Per cent of S&L's with funds in short supply
1975--High	9.59	--	66
Low	8.80	--	7
1976--High	9.10	--	10
Low	8.70	--	0
June 4	8.78	0	1
11	8.83	+5	3
18	8.88	+5	5
25	8.90	+2	6
July 2	8.93	+3	n.a.
9	8.93	0	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1975--High	100	51	10.02	643	366	9.95	9.10
Low	11	9	8.96	25	18	8.78	7.99
1976--High	131	91	9.31	634	321	9.20	8.44
Low	33	22	9.00	58	32	8.83	8.00
June 7							8.39
14	77	70	9.30	147	99	9.14	8.34
21							8.34
28	94	59	9.31	261	158	9.12	8.34
July 6							8.41
12	91	82	9.27	148	88	9.05	8.34

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

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

Although more than one month's data will be needed to assess fully the impact of the recent FTC ruling regarding the holder in due course doctrine, the May figures on consumer instalment credit suggest no more than marginal effects from the FTC edict. The small decline in mobile home loans and some weakness in home improvement loans are the only perceptible signs of shifting lending patterns that might tentatively be attributed to the regulatory action.

CONSUMER INSTALMENT CREDIT

	1974	1975	1975 QIV*	1976 QI*	1976 Apr.*	1976 May*
Total						
Change in outstandings						
$ Billions	9.0	6.9	16.0	16.3	16.6	17.7
Per cent	6.1	4.4	10.2	10.0	10.3	10.9
Bank share (%)	44.4	41.7	49.2	37.6	38.3	48.4
Extensions						
$ Billions	160.2	160.0	177.4	190.1	186.1	180.5
Bank share (%)	45.4	47.1	48.3	48.9	48.3	48.0
Liquidations ($ billions)	151.1	156.4	161.4	173.8	169.5	162.8
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.4	8.2	8.2	
Per cent	0.6	5.2	14.3	15.5	15.3	14.3
Extensions						
$ Billions	43.2	47.8	53.4	62.1	61.1	53.7
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 1/	8.8	14.0	17.0	20.0	--	--
Finance companies	8.6	23.5	25.4	29.5	32.3	--
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.24	11.17	11.08	11.01
Finance companies	12.61	13.11	13.17	13.15	13.13	--

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

July 14, 1976

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

		1975 YEAR	1975 Q4	1976 Q1	1976 Mar.	1976 Apr.	1976 May
1.	Merchandise exports	107,133	27,655	26,939	9,252	9,313	9,479
2.	Merchandise imports	98,150	25,456	28,447	9,891	9,736	9,400
3.	Trade balance	8,983	2,199	-1,508	-639	-423	79
4.	Bank-reported private capital flows	-12,585	-4,585	-2,833	-2,100	3,429	-87
5.	Claims on foreigners (increase -)	-13,238	-5,287	-3,714	70	-2,452	-983
6.	Long-term	-2,351	-943	-245	-289	-180	-258
7.	Short-term	-10,887	-4,344	-3,469	359	-2,272	-725
8.	(of which on commercial banks in offshore centers[2/])	(-6,920)	(-2,076)	(-3,735)	(409)	(-1,577)	(327)
9.	Liabilities to foreigners (increase +)	653	702	881	-2,170	5,881	896
10.	Long-term	-355	91	166	178	15	-2
11.	Short-term	1,008	611	715	-2,348	5,866	898
12.	to commercial banks abroad	-605	-992	1,034	-2,612	4,797	1,254
13.	(of which to commercial banks in offshore centers[2/])	(1,795)	(706)	(-229)	(-2,609)	(3,888)	(68)
14.	to other private foreigners	1,549	758	146	75	563	-213
15.	to int'l and regional organizations	64	845	-465	189	506	-143
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,649	162	451	19	245	146
17.	Other private securities transactions (net)	-3,479	-1,144	-1,481	-589	-242	-443
18.	Foreign net purchases (+) of U.S. corp. securities	2,727	1,217	1,026	386	135	38
19.	(of which stocks)	(3,205)	(944)	(942)	(425)	(155)	(47)
20.	U.S. net purchases (-) of foreign securities	-6,206	-2,361	-2,507	-975	-377	-481
21.	(new foreign issues of bonds and notes)	(-7,168)	(-2,573)	(-2,824)	(-1,039)	(-475)	(-560)
22.	Change in foreign official assets in the U.S.	4,604	2,088	1,856	488	1,353	1,135
23.	OPEC countries (increase +)	5,677	1,780	1,249	807	1,441	1,068
24.	(of which U.S. corporate stocks)	(1,469)	(519)	(531)	(157)	(256)	(68)
25.	Other countries (increase +)	-1,073	308	607	-319	-88	67
26.	Change in U.S. reserve assets (increase -)	-607	89	-773	-330	-521	-557
27.	Other transactions and statistical discrepancy (net payments (-))	435	1,191	4,288	3,151	-3,841	-273
28.	Other current account items	2,963	956	1,460			
29.	Military transactions, net[3/]	-1,223	-160	-79			
30.	Receipt of income on U.S. assets abroad	18,219	4,709	5,419			
31.	Payment of income on foreign assets in U.S.	-12,212	-3,039	-3,290			
32.	Other services, net	2,163	455	441			
33.	Remittances and pensions	-1,727	-433	-480			
34.	U.S. Govt. grants[3/]	-2,257	-576	-551			
35.	Other capital account items	-7,128	-1,908	-1,746			
36.	U.S. Govt. capital, net claims[3/] (increase -)	-2,027	-523	763			
37.	U.S. direct investment abroad (increase -)	-6,307	-1,694	-1,580			
38.	Foreign direct investment in U.S. (increase +)	2,437	1,229	-689			
39.	Nonbank-reported capital, net claims (increase -)	-1,231	-920	-240			
40.	Statistical discrepancy	4,602	2,143	4,574			
	MEMO:						
41.	Current account balance	11,945	3,155	-48			
42.	Official settlements balance	-3,997	-2,177	-1,083	-158	-832	-578
43.	O/S bal. excluding OPEC	1,680	-397	166	649	609	490

NOTES:
1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.
2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda)
3/ Excludes certain special transactions with Israel which are recorded in Department of Commerce statistics as offsetting shifts between U.S. Govt. capital and both military transactions and U.S. Govt. grants.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the four weeks since the last green book selling pressure on the pound and guilder has eased and that on the Italian lira has been reversed. In addition new downward pressure on the French franc and upward pressure on the yen has emerged. During this period the trade-weighted value of the dollar has declined only a slight 1/4 per cent. The dollar remains at roughly the same level it reached some 3 months ago, after appreciating about 15 per cent over the previous 12 months.

The pound has been under more or less continuous downward pressure since early March. However, in the last two weeks this pressure has greatly eased; , and the pound has appreciated almost 1 per cent.

. The pound's recent stability seems to be due to expectations that (a) the U.K. government will announce cuts in public expenditures and (b) the Bank of England will intervene heavily to prevent the pound from falling below the $1.77-$1.78 level.

Downward pressure on the guilder has also eased recently.

the guilder has been replaced by the Belgian franc at the bottom of the snake.

Since the conclusion of Italian elections on June 21, the lira has appreciated 1.8 per cent against the dollar,

. Besides the reduced uncertainty associated with the conclusion of the elections, the lira was also boosted by the discussion of further financial aid for Italy at the Puerto Rican Summit.

The Japanese yen has also strengthened recently, rising 2-1/2 per cent over the last four weeks

. The main factors behind the yen's strength were reports that the Japanese Ministry of International Trade and Investment and U.S. Treasury officials were urging Japanese monetary authorities to allow the yen to appreciate.

The French franc has come under selling pressure during the last week-and-a-half -- declining 3/4 per cent against the dollar

. The weakness of the French franc is probably due to forecasts of increased inflation, and to a growing awareness of the impact that the current European drought will have on the French trade balance (reduced net grain exports and increased oil imports due to a decrease in the production of hydro-electric power).

. The Syatem purchased $26 million equivalent of Belgian francs, and, on July 9, made a $25 million equivalent repayment on the Belgian franc swap debt leaving an outstanding debt of $102 million. The System also purchased $8 million equivalent of marks to hold in balances.

Euro-dollar interest rates have fallen about 5/8 of a percentage point in both the 6 and 12 month maturities during the last month, and by lesser amounts in the shorter maturities.

The gold price has drifted downward about $3.00 over the last four weeks to a 2-1/2 year low of about $122 per ounce. The second IMF gold auction was held on July 14 but the results are not available at this writing. At the June 2 auction the Bank of France purchased 33,000 ounces of gold and the Swiss National Bank bought 32,000 ounces (worth about $4 million at market prices).

U.S. banks' foreign branch activity. Assets of foreign branches of U.S. banks, exclusive of interbranch claims within the same parent bank, rose at a 17 per cent annual rate ($8 billion) in the first four months of 1976 compared with a 15 per cent annual rate in the last half of 1975 and a 5 per cent annual rate ($2.1 billion) in the same period last year.

Branch loans to foreign nonbanks rose at an 11 per cent annual rate in the first four months of the year, about the same as in the second half of last year, although there is other evidence that overall loan demand in several major industrial countries has strengthened recently. Loans to nonbanks continued to be bolstered in about the same measure as the second half of last year by branch participation in syndicated Euro-dollar loans to borrowers in industrial countries as well as to developing countries, which have continued this year to have heavy recourse to the Euro-dollar market to cover payments deficits. Branch placements with other banks, the largest asset category, rose only one-half as fast as

Assets and Liabilities of Foreign Branches of U.S. Banks
(billions of dollars; excluding accounts with other branches of parent bank)

	1974	1975			1976
	Dec.	Apr.	June	Dec.	Apr.
Assets: total	124.3	126.4	131.5	141.4	149.5
Claims on U.S. residents:	6.9	5.8	5.5	6.7	9.1
Parent bank	4.5	3.1	2.3	3.7	6.1
Other	2.4	2.8	3.2	3.1	3.0
Claims on foreigners:	111.2	114.8	119.6	128.4	133.8
Other banks	60.3	60.3	63.7	68.4	70.5
Official institutions	4.1	4.4	4.8	5.9	7.2
Nonbanks	46.8	50.1	51.1	54.1	56.1
Other assets	6.3	5.8	6.3	6.3	6.5
Liabilities: total	125.0	126.4	131.9	142.0	150..
To U.S. residents:	12.0	14.9	18.6	20.1	26.7
Parent bank	5.8	8.7	12.2	12.1	14.5
Other	6.2	6.2	6.4	8.1	12.2
To foreigners:	106.1	105.4	106.8	115.6	117.5
Other banks	65.7	62.3	65.0	72.2	72.1
Official institutions	20.2	23.2	21.1	22.8	21.8
Nonbanks	20.2	19.9	20.7	20.6	23.6
Other liabilities	6.9	6.1	6.5	6.4	5.8

total branch assets. However, loans to foreign official institutions, which arise mostly from branch participations in syndicated Euro-dollar loans to central governments or monetary authorities, underwent a sharp increase. Claims on U.S. residents other than the parent bank were virtually unchanged. However, claims on the parent bank, which showed little change between end-December and end-March, rose sharply at the end of April, when the last working day was a Friday, in reflection of week-end Euro-dollar operations.

The funding of the $8.0 billion rise in branch assets came largely from the United States. Advances from head offices increased $2.4 billion, after being essentially unchanged in the second half of 1975. Liabilities to U.S. residents other than parent banks rose $4.1 billion, substantially more rapidly than in most of last year; however, much of the increase occurred in April when the end-month figures reflected week-end placements of Euro-dollars by U.S. agencies and branches of foreign banks. While liabilities to foreign official institutions were down, foreign private nonbanks increased their deposits with the branches by $3.1 billion.

The quarterly data on the distribution of branch accounts by country of customer show that in the first quarter of this year claims on non-oil developing countries rose 11 per cent ($2.5 billion) to $24.0 billion, compared with a 3 per cent ($4.0 billion) rise in claims on other countries. In particular, claims on Brazil rose 25 per cent, to $6.9 billion. Other especially large increases in claims in the first quarter occurred with respect to West Germany (19 per cent, to $8.9 billion). the Soviet Union (62 per cent, to $1.0 billion), and Middle East oil-exporting countries (16 per cent, to $2.5 billion). For the three quarter-ends for which data are available, the geographical distribution of assets of the reporting branches was as follows after eliminatinn of claims on other branches of the same parent bank (in billions of dollars):

	9/30/75	12/31/75	3/31/76
Industrial countries 1/	90.8	95.5	98.7
Offshore banking centers 2/	17.2	17.3	18.0
Developing countries:			
Non-oil	19.8	21.5	24.0
Oil-exporting	4.2	5.4	6.0
Other and unallocated	2.4	3.1	2.6
Total	134.4	142.8	149.3

1/ Europe, Canada, Japan, South Africa, Australia, New Zealand, and United States.
2/ Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama, Hong Kong, and Singapore.

U.S. International Transactions. The U.S. merchandise trade balance was a small surplus in May-the first surplus in five months. For April and May combined the merchandise trade deficit was $2.1 billion (seasonally adjusted annual rate, balance of payments basis), down from the $6 billion first quarter deficit rate. The smaller than expected April-May deficit was largely due to the strong performance of agricultural and non-agricultural exports.

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

	1975r	1975				1976			
	Year	1Q	2Q	3Q	4Q	1Qr	April & May	April	May
EXPORTS	107.1	108.1	103.4	106.4	110.6	107.8	112.8	111.8	113.7
Agric.	22.3	24.3	19.6	22.3	23.0	21.3	23.2	22.6	23.7
Nonagric.	84.9	83.8	83.8	84.2	87.7	86.4	89.6	89.1	90.0
IMPORTS	98.2	102.3	90.4	98.0	101.8	113.8	114.8	116.8	112.8
Fuels	28.5	27.8	26.7	30.0	29.5	31.9	34.4	38.8	30.0
Nonfuels	69.6	74.5	63.7	68.0	72.3	81.9	80.4	78.0	82.8
TOTAL BALANCE	+9.0	+5.7	+13.0	+8.4	+8.8	-6.0	-2.1	-5.1	+0.9

Trade Volume
(1975 = 100)

	Year	1Q	2Q	3Q	4Q	1Qr	April & May	April	May
EXPORTS	100	100	96.5	100	103	99.6	103	103	103
Agric.	100	100	87.8	103	108	102	112	110	115
Nonagric.	100	100	98.9	99.1	102	98.7	101	101	101
IMPORTS	100	103	90.1	101	105	116	115	117	113
Fuels	100	96.9	93.8	108	102	105	112	129	94.4
Nonfuels	100	106	88.9	99.4	106	120	115	112	118

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

Exports in April-May were $113 billion at an annual rate, 5 per cent above the first quarter rate but only 2 per cent greater than the fourth quarter of 1975. The volume of exports in April-May recovered to the fourth quarter 1975 level.

Agricultural export volume continued to be very strong in May as corn and soybeans exports again rose due to increased exports to Western Europe and the Soviet Union. Volume will remain high as drought conditions persist in Western Europe and further Russian purchases of grain are expected under the U.S.-U.S.S.R. grain agreement. In addition, the Soviet Union has recently purchased nearly 2.5 million metric tons of soybeans, not covered by the agreement, from U.S. firms. Most of these soybeans are expected to come from the 1976 U.S. crop. Corn and wheat prices rose about 10 per cent and soybean prices 40 per cent between May 1 and July 1, and export prices will reflect these increases.

Nonagricultural exports were at an annual rate of $90 billion in April and May combined. Volume rose to a level near that of the fourth quarter of 1975 and 2.5 per cent higher than in the first quarter of 1976. Virtually all major export categories registered increases in April-May over the first quarter of 1976. Exports of capital goods and nonagricultural industrial supplies were especially strong, a trend which may continue as Western Europe and Japan extend their recovery from the recession. However, new export orders declined in May and exports to non-OPEC LDC's remained somewhat below 1975 levels.

The average April-May value of imports was $115 billion at an annual rate, one per cent above the rate in the first quarter of 1976. While the level of fuel imports fluctuated widely from April to May, the combined April-May value, $34.4 billion at an annual rate was up by 7.8 per cent from the first quarter, in line with the rate of economic expansion in the United States and the decline in domestic production. The April-May volume of fuel imports averaged 7.2 million barrels per day (vs. 6.9 million barrels per day in the first quarter of 1976).

Nonfuel imports in April-May averaged $80.4 billion at an annual rate, slightly lower than the rate in the first quarter of 1976. Imports in a number of categories had picked up much more sharply than U.S. production and consumption earlier, and a pause was anticipated as this apparent swing in inventory adjustment ran its course. With continuing domestic expansion, nonfuel imports should soon resume an upward trend.

Bank reported claims on foreigners increased by about $1 billion in May, bringing the total increase in January-May to $7.2 billion. Much of the May increase was in claims on Latin America. Liabilities to private foreigners reported by banks increased about $900 billion in May; for the January-May period the increase in such liabilities was about $7.7 billion -- slightly more than the increase in claims for those months. So far this year the pace of lending to foreigners by U.S.-based banks has been a little higher than last year's rate, but there has been a much larger increase in liabilities to foreigners in January-May this year than in 1975.

Data on private securities transactions other than U.S. Treasury obligations showed net U.S. purchases of foreign securities exceeding foreign net purchases of U.S. securities by $400 million in May, about the same rate of outflow as in January-April. The list of issuers of foreign bonds in the U.S. market expanded, with Brazil and Japan added to the usual Canadian and European borrowers. Interest rate increases in May caused the postponement of at least one large new foreign bond issue in in the United States. Relatively few new foreign bonds were issued in June, but several large issues are scheduled for July, including a $750 million issue by the World Bank and $600 million by Canadian utilities.

Foreign official assets in the United States increased by $1.1 billion in May, after increasing by $1.4 billion in April. OPEC countries, notably Saudi Arabia and Iran, accounted for virtually all the increase in both months. The April-May total was already double the amount these countries acquired in the first quarter of 1976. Factors behind this surge were increased oil revenues, lessened attractiveness of sterling assets, and U.S. interest rates that were higher than earlier in the year. Non-OPEC foreign official holdings in the United States were almost unchanged, although there were substantial changes reported for individual countries.

United States reserve assets increased by $273 million, largely owing to an increase in the U.S. reserve position with the I.M.F. as others drew dollars.

World Commodity Prices. World commodity prices have recovered rapidly from low levels of late 1975. By June 22, the Economist dollar index of commodity prices, which weights commodities by their value in OECD imports, had risen by 28 per cent over its cyclical quarterly low in the fourth quarter of 1975. The overall index, shown in the first column in Table 1, is now 6 per cent above its cyclical quarterly peak in the second quarter of 1974. The food, feed and beverage price component of the composite index is higher now than in the first half of 1974, while the industrial raw materials component is still far below the levels reached then.

The general price level in the United States, as measured by the GNP deflator, has risen by 17 per cent during the period in which these commodity prices fell and then recovered. The relative price of commodities, constructed by dividing the Economist dollar price index by the GNP deflator, has increased by 24 per cent from its cyclical quarterly low in the fourth quarter of 1975 and stands at 90 per cent of the quarterly peak reached in the second quarter of 1974. For most commodities, the recent price increases can be traced to higher rates of consumption associated with increases in real income or significant decreases in supply rather than to speculative demand such as occurred in the 1973-1974 price runup.

The Economist food price index, which might better be called a food, feed and beverage price index, has a weight of 61 per

Table 1

The Economist Commodity Price Index

1970=100

	All Items	Food	Industrial Raw Material: Total	Fibers	Metals	United States GNP deflator 1970 = 100
1973 - 1	160.3	168.0	150.6	259.4	100.3	112.7
- 2	191.0	208.0	170.0	272.1	122.0	144.7
- 3	218.3	232.9	200.1	300.5 H	150.4	116.8
- 4	218.1	222.6	212.3	298.0	169.3	119.3
1974 - 1	240.1	253.3	223.9	296.9	184.7	122.2
- 2	249.3 H	264.7	230.0 H	264.0	216.7 H	125.1
- 3	235.5	280.5	179.3	237.9	150.3	128.8
- 4	240.9	311.7 H	152.3	199.2	125.0	133.0
1975 - 1	217.1	265.7	140.4	197.8 L	121.5	135.4
- 2	207.3	243.3 L	150.2	209.5	117.6	136.8
- 3	210.4	250.1	147.3	202.0	113.1	139.2
- 4	205.4 L	243.7	144.6 L	207.1	107.2 L	141.5
1976 - 1	218.7	257.0	[illegible]	228.6	112.9	142.8
- 2	245.0 P	286.6 P	177.4 P	238.9 P	136.3 P	144.7 e
June 29, 1976	263.3 P	310.2 P	187.4 P	264.7 P	140.7 P	145.8 e

H: quarterly high of index of 1973 or 1974
L: quarterly low of index of 1975
e: estimated
P: provisional

Quarterly figures are averages of weekly data.

cent in the composite index. It is less than one per cent below its all-time quarterly high at the end of 1974, whereas the (deflated) relative food price index is currently 10 per cent below its quarterly peak, which was also in the fourth quarter of 1974. The commodities whose prices are given the largest weights in the food index are coffee, sugar, beef, soybeans and soybean meal, corn and wheat. The price of coffee has more than doubled following the July 1975 frost that destroyed millions of coffee trees in Brazil. (It will be 1979 or 1980 before world coffee production again reaches 1974 levels.) Sugar, soybean, corn and wheat prices have risen recently, partly because of the drought in Western Europe. (Sugar prices, however, are still far below levels recorded in the speculative bubble of 1974.) Soybean prices have also risen because American farmers are reported to have planted 10 per cent fewer acres of the crop and because Brazilian soybean exports have been smaller than expected. Beef prices are currently lower than in 1975 as lower feed costs and higher beef prices induced cattle feeders to increase production.

The industrial raw materials index has increased by 31 per cent over its quarterly low in 1975 but is still well below its quarterly peak in 1974. The relative price of industrial raw materials, as measured by the deflated index, has increased by 24 per cent over its quarterly trough in 1975. Prices of commodities classed as industrial raw materials have risen less sharply and more uniformly across commodities. An exception is cotton prices, which have exceeded levels reached in late 1973 and early 1974, reflecting possible crop damage by bad weather in cotton producing regions of the United States and fears of a poor Soviet cotton crop, together with stronger demand associated with the recovery from world recession.

The record high volume of futures trading at U.S. markets in June may be evidence that commodity speculation has recently increased. It is difficult, however, to distinguish hedgers from speculators in such markets; and hedging would be expected to increase as the volume of economic activity picks up. Some British investors, as a way of avoiding exchange controls, used sterling to buy futures contracts on the London Metal Exchange in April and May as the pound was falling. While this gave them a method of hedging against future pound depreciations, it may have temporarily caused not only the pound-denominated but also the dollar denominated prices of copper and zinc to increase faster than supply and demand conditions would justify. (The Bank of England threatened to move to halt what it saw as "speculative trading" in any commodity on the London Metal Exchange when speculative transactions accounted for more than 30-35 per cent of total business.) Nonetheless, there is no convincing evidence yet that speculators have had a major effect on commodity prices in 1976.

Monetary conditions in major foreign countries. Evidence is increasing that monetary authorities abroad are beginning to shift to a somewhat more restrictive policy posture. This shift reflects two factors. First, economic activity in the industrial countries has been recovering more strongly than had previously been expected. Second, a high degree of liquidity had been generated in most countries, due partly to earlier fairly easy or at least accomodative monetary policies and, in some countries -- especially Switzerland -- to increases in official foreign reserve assets. The conjunction of a strong economic recovery and a high degree of domestic liquidity, at a time when rates of price increase remain high and government deficits are still large, has created fears of an intensification of inflation. At the same time, however, the shift toward restriction is likely to remain modest in most cases, given that unemployment levels remain high and are not expected to come down quickly, and investment has not yet recovered.

The shift toward more restrictive monetary policies abroad is indicated by an upward movement of interest rates and a slowing in the growth of money stocks, and by the policy actions adopted. As shown in the following table, 3-month interest rates in several countries are higher now than they were three months ago. In Canada, where a restrictive policy adopted last fall raised interest rates earlier in that country than elsewhere, interest rates have been declining since March. In Italy, where interest rates were raised sharply earlier this year in response to exchange-market pressure, there has been a sizable decline in rates in July, though the level of rates remains extremely

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

	Level:		Change during month:				Total change	
3-MONTH RATES 1/	end-1975	end-March 1976	Apr. 1976	May 1976	June 1976	July 1976 (to date)	since end-March	Level Latest
Canada	9.25	10.38	-0.75	0	-0.13	0	-0.88	9.50 (7/13)
France	6.50	7.63	0.12	0.38	-0.13	-0.06	0.31	7.94 (7/13)
Germany	4.20	3.70	-0.20	0.20	0.80	-0.20	0.60	4.30 (7/14)
Italy	7.63	18.25	-0.75	1.63	1.75	-3.00	-0.37	17.88 (7/13)
Japan	8.25	7.75	-0.50	0	0.50	0	0	7.75 (7/14)
Switzerland	2.75	1.25	-0.12	0.50	-0.75	0.12	-0.25	1.00 (7/14)
United Kingdom	10.81	8.75	2.00	0.75	-0.31	0	2.44	11.19 (7/13)
United States	5.25	5.00	0	0.63	-0.13	0.13	0.63	5.63 (7/7)
LONG-TERM GOV'T. BOND YIELDS 2/								
Canada	9.51	9.48	-0.14	-0.02	0	0.03	-0.13	9.35 (7/2)
France	9.91	9.98	0.05	-0.05	0.15	-0.09	0.06	10.04 (7/4)
Germany	7.74	6.52	0.12	0.31	0.18	0.12	0.73	7.25 (7/7)
Italy	11.37	12.37	0.73	0.20	0.20	n.a.	1.13	13.50 (6/30)
Japan	9.02	8.71	-0.03	0.09	0	n.a.	0.06	8.77 (6/30)
United Kingdom	14.48	13.75	-0.27	0.38	-0.18	0.05	-0.02	13.73 (7/9)
United States	8.03	7.89	0.05	0.23	-0.15	-0.04	0.06	7.96 (7/13)

1/ The short-term rates quoted are generally 3-month rates: interbank rates for France, Germany Italy, and the United Kingdom; the finance company paper rate for Canada; and the CD rate for the United States. For Japan, the rate on paper of 2-month or greater maturity is quoted.
2/ The long-term rates quoted are all government bond yields -- mostly composite yields. For the United States, the 20-year constant maturity yield is quoted.

high (as, of course, does the expected rate of inflation). In contrast, interest rates in Switzerland, where purchases of foreign exchange by the Swiss National Bank have contributed to a high degree of liquidity, remain very low.

Strengthening demand for credit seems to be exerting upward pressure on interest rates in several countries, especially in Germany and France. In the United Kingdom, private demand for credit has also strengthened in recent months, but the upward pressure on interest rates has been counteracted by other factors. In Japan, a strengthening of credit demand halted the decline in interest rates and helps to explain some increase in rates since the end of April.

In Germany and Japan, the pattern of movement in long-term interest rates has reflected the movement of short-term rates; in both countries the earlier decline in bond yields was halted, and was significantly reversed in Germany. With the exception of Italy, where yields rose sharply from already-high levels, bond yields in other countries have shown little net change since the end of March. It may be that a downward revision of long-run expectations of inflation has offset the general tendency for interest rates to rise.

The growth of the money stock in major foreign countries is shown in the next table. Rates of growth of both narrowly- and broadly-defined money have tended to be slower in recent months than in previous months -- quite a bit slower in France, Japan, and the United Kingdom. Growth of the broader money stock in Canada is the major exception; but the underlying growth rate of Canadian M_1 has declined from the

GROWTH OF THE MONEY STOCK IN MAJOR INDUSTRIAL COUNTRIES
(percentage change; seasonally adjusted)

		Change from February 1976 to May 1976	Change from November 1975 to February 1976	Change from May 1975 to May 1976
Canada	M_1	-1.4	-2.4	10.4
	M_2	5.1	3.8	20.0
France	M_1	3.3 1/	6.0 1/	20.2 1/
	M_2	3.1	5.2	20.3
Germany	M_1	1.6	1.9	12.0
	M_2	0.9	0.9	5.5
Japan	M_1	2.9 1/	7.1 1/	13.2 1/
	M_2	3.3 1/	4.5 1/	15.4 1/
Switzerland	M_1	0.9 1/ 2/	5.5 1/ 2/	7.8 1/ 2/
United Kingdom	M_1	2.7	5.0	14.8
	M_3	2.3	2.5	8.9
United States	M_1	1.7 3/	1.1 3/	4.1 3/
	M_2	2.5 3/	2.9 3/	9.0 3/

Various national sources. Data on the Italian money stock are available only through January, and are therefore not presented.

1/ Changes shown are from January to April, October to January, and April to April, respectively.
2/ Not seasonally adjusted.
3/ Changes shown are from March to June, December to March, and June to June, respectively.

high levels of late last year and is now near the bottom of the 10-15 per cent target range announced by the Bank of Canada last November. The Bank of Canada has indicated that it may lower that target range "before long."

Many countries have been acting either to reduce what is deemed to be excessive domestic liquidity or, at least, to stop liquidity from increasing further. Swiss authorities evidently face the most difficult problem. In order to moderate the upward movement of the Swiss franc, Swiss authorities have intervened heavily in the exchange market. To offset the liquidity generated by sizable official purchases of foreign exchange, the Swiss authorities have: (1) encouraged capital outflows (including a 2-1/2 year, 750 million Deutsche-mark -- $290 million -- loan by Swiss banks to Germany); (2) issued long-term bonds to finance future government deficits, and sterilized the proceeds, and (3) announced an increase in minimum reserve requirements against foreign liabilities, from 10 to 65 per cent (effective July 26). It remains to be seen whether even these measures can hold the growth of M_1 down to the 6 per cent target rate this year.

Japanese authorities have also been faced with the choice between increasing foreign exchange reserves -- and consequent liquidity creation -- or an unwanted appreciation of the exchange rate. The Ministry of Finance reacted by reducing the ceiling on term loans ("impact" loans) that Japanese firms are allowed to draw from foreign banks, and by lowering the ceiling on the amount of bonds issued overseas by Japanese firms. However, the ceiling on new loans ("window guidance") by the Japanese city banks, recently announced for the third quarter, appears to be no more restrictive than in previous quarters.

The French Government recently issued a 2-1/2 billion French franc ($1/2 billion) 15-year bond to soak up liquidity; the issue was fully subscribed the first day (2/3 by private nonbanks), and another such issue is being considered for the fall. It is reported that French banks generally have no margin now remaining under their credit ceilings, so those ceilings may begin to bite; current credit ceilings imply slightly more than a 7 per cent annual rate of growth of credit in the second half of this year, compared with a 9-1/2 per cent growth rate allowed in the first half (with actual growth presumably being somewhat higher due to the elimination of spare margins within the ceilings).

The German Government renewed, on July 1, its sales of one-to-two year Treasury bonds, which had been suspended last November, and of longer-term Federal debt, new sales of which had been dormant since April. Reserve requirements for commercial banks were raised by a total of 10 per cent in two stages (May 1 and June 1); the Bundesbank characterized this move as being designed merely to offset a decline in Government deposits at the Bundesbank. According to Bundesbank officials, they are currently "on target" so far as their 1976 target for 8 per cent growth of "central bank money" is concerned.

In some of the smaller countries, as well, restrictive monetary policies have been adopted primarily for domestic reasons, i.e., to reduce the potential for inflationary monatary growth. In Sweden, the discount rate was raised on June 3, from 5-1/2 to 6 per cent. Banks' required liquidity ratios were effectively raised, by enlarging the base against which these ratios apply, and a proposal was made to apply the ratios to financial institutions other than banks. This tightening was anticipated in January, when the Riksbank recommended that banks reduce the growth of credit. In Norway, a gradual increase in banks' required holdings of bonds and of primary reserves was announced in June. Discount rates were raised in the Netherlands on June 1 and again on June 18 -- each time by 50 basis points; the basic rate now stands at 5 per cent. These discount rate changes were described as an adjustment to higher domestic market rates, though the authorities also wanted to help resist downward pressure on the exchange rate for the guilder.

In other countries, external considerations have dominated monetary policy decisions. Responding to extreme downward pressure on the lira, Italian authorities acted to reduce the monetary base, which had risen in large part because of the sizable government deficit. On May 6, they imposed a temporary import-deposit scheme and, on June 4, announced an increase (from 30 to 42 per cent) in the portion of the growth of banks' deposit liabilities that must be invested in government securities. The money market tightened severely, and interest rates rose sharply. More recently, however, monetary conditions have eased significantly, reflecting Italy's success in reversing capital flows and the Bank of Italy's purchases of Treasury bills.

Interest rates in Britain rose sharply in April and May, when the exchange rate for sterling was under severe downward pressure. The Bank of England's Minimum Lending Rate was raised by 150 basis points on April 23 and by another 100 basis points on May 21; it now stands at 11.50 per cent. The Bank renewed its sales of gilt-edged securities, which had been suspended in January, and engaged in some spot sales and forward purchases of dollars (which are analagous to open-market sales of domestic securities under repurchase agreements). Some strength in sterling lending to the private sector in the latest 2-3 months has added to upward pressure on British interest rates. In contrast, signs of success in reducing the still-high rate of inflation, improving prospects of a lower public sector borrowing requirement, and reduced speculation against sterling, help to account for the slightly easier conditions in financial markets since the end of May.

In Denmark there is a severe credit squeeze. Many banks are exceeding their credit ceilings and therefore must place an amount equal to the excess in a non-interest-bearing account at the National Bank. Thus, Danish firms are being forced to borrow abroad, which is the major objective of the tight monetary policy, given the large Danish current-account deficit.