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Confidential (FR) Class II FOMC

July 2, 1980

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
					(At annual rate)	
Civilian labor force	May	6-6-80	105.1	8.3	3.4	2.7
Unemployment rate (%) 1/	May	6-6-80	7.8	7.0	6.0	5.8
Insured unemployment rate (%) 1/	May	6-6-80	4.3	3.7	3.1	2.8
Nonfarm employment, payroll (mil.)	May	6-6-80	90.3	-2.4	-2.3	1.0
Manufacturing	May	6-6-80	20.3	-16.0	-10.8	-3.5
Nonmanufacturing	May	6-6-80	70.0	1.6	.3	2.4
Private nonfarm:						
Average weekly hours (hr.) 1/	May	6-6-80	35.1	35.3	35.5	35.7
Hourly earnings ($) 1/	May	6-6-80	6.57	6.54	6.46	6.09
Manufacturing:						
Average weekly hours (hr.) 1/	May	6-6-80	39.4	39.6	40.1	40.2
Unit labor cost (1967=100)	May	6-30-80	192.2	13.9	14.4	10.9
Industrial production (1967=100)	May	6-13-80	145.5	-25.0	-17.9	-4.5
Consumer goods	May	6-13-80	142.7	-20.7	-15.6	-6.1
Business equipment	May	6-13-80	172.1	-14.5	-8.4	.4
Defense & space equipment	May	6-13-80	95.1	-12.5	-3.8	2.8
Materials	May	6-13-80	147.6	-30.9	-21.3	-5.2
Consumer prices all items (1967=100)	May	6-24-80	244.7	10.4	13.0	14.3
All items, excluding food & energy	May	6-24-80	231.0	12.1	13.4	13.2
Food	May	6-24-80	249.2	3.9	7.4	6.7
Producer prices: (1967=100)						
Finished goods	May	6-6-80	240.4	3.0	8.7	13.3
Intermediate materials, nonfood	May	6-6-80	277.2	1.7	4.4	16.2
Crude foodstuffs & feedstuffs	May	6-6-80	235.1	29.3	-25.8	-3.2
Personal income ($ bil.) 2/	May	6-17-80	2070.0	1.7	2.8	9.4
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	May	7-1-80	67.4	-6.6	-16.8	-12.5
Capital goods industries	May	7-1-80	25.4	-6.2	1.0	2.6
Nondefense	May	7-1-80	20.1	-9.1	-6.2	-4.7
Defense	May	7-1-80	5.3	6.7	43.4	45.0
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Apr.	7-1-80	1.51	1.44	1.38	1.44
Manufacturing	May	7-1-80	1.71	1.69	1.54	1.49
Trade	Apr.	7-1-80	1.34	1.29	1.24	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	May	7-1-80	.588	.582	.568	.549
Retail sales, total ($ bil.)	May	6-10-80	73.7	-1.5	-5.6	1.9
GAF 3/	May	6-10-80	16.5	1.0	-1.5	3.3
Auto sales, total (mil. units.) 2/	May	6-4-80	7.3	-11.5	-31.1	-34.2
Domestic models	May	6-4-80	5.2	-13.3	-32.2	-37.5
Foreign models	May	6-4-80	2.1	-6.6	-28.1	-23.9
Plant & Equipment expen. ($ bil.)4/						
All Industries	1980	6-10-80	194.63	--	--	9.9
	1980-Q2	6-10-80	191.00	-.2	--	10.1
	1980-Q3	6-10-80	195.54	2.4	--	9.0
	1980-Q4	6-10-80	199.41	2.0	--	6.7
Capital Appropriations, Mfg.	1980-Q1	5-30-80	29,789	28.3	--	36.0
Housing starts, private (thous.) 2/	May	6-17-80	920	-11.5	-30.8	-48.9
Leading indicators (1967=100)	May	6-30-80	123.4	-2.4	-8.7	-12.5

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce May 1980 Survey.

Incoming information on the economy indicates that activity contracted sharply in recent months. Advance estimates suggest that real gross national product declined at about an 8-1/2 percent annual rate in the second quarter--the second largest quarterly drop in the postwar period, with all major components of private domestic final demand falling considerably. Some involuntary stock accumulation has occurred as a consequence of the unexpectedly severe drop in final sales. The contraction of economic activity has led to a marked weakening in the demand for labor and a rapid rise in the unemployment rate. At the same time, more favorable market conditions for some commodities and an easing in rates of increase of energy prices have reduced price pressures somewhat, although rates of inflation at the consumer level remain high.

Employment and Production

Labor demand continued to deteriorate in May as nonfarm payroll employment fell 180,000 to a level 1/2 million below its peak in February. Manufacturing employment dropped 275,000 following a similar decrease in April. Factory job losses were widespread among durable goods industries, with particularly large decreases in automotive and construction-related industries. Employment at trade establishments edged up in May but still remained somewhat below its peak in February. The factory workweek fell 0.2 hour further in May; since January, the average workweek has been shortened almost one hour.

Total employment, as measured by the household survey, continued to decline in May to a level nearly one million below its peak

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1978	1979		1980		
		H1	H2	Q1	Apr.	May
	- - - Average monthly changes - - -					
Nonfarm payroll employment[2]	334	249	103	193	-311	-180
Strike adjusted	318	254	109	195	-325	-234
Manufacturing	69	30	-30	3	-286	-275
Durable	57	30	-24	13	-257	-243
Nondurable	12	1	-6	-10	-29	-32
Construction	39	32	20	-28	-109	10
Trade, finance and services	169	132	90	162	-120	118
Private nonfarm production workers	256	171	58	89	-527	-173
Manufacturing production workers	50	13	-39	-17	-293	-296
Total employment[3]	270	137	210	-85	-502	-166
Nonagricultural	264	159	191	-85	-386	-303

1. Changes are from final month of preceding period to final month of period indicated.
2. Survey of establishments. Not strike adjusted, except where noted.
3. Survey of households.

SELECTED LABOR MARKET INDICATORS
(Percent; based on seasonally adjusted data)

	1978	1979		1980		
		H1	H2	Q1	Apr.	May
Unemployment rates						
Total, 16 years and older	6.0	5.8	5.8	6.1	7.0	7.8
Teenagers	16.3	16.0	16.2	16.2	16.2	19.2
20-24 years old	9.5	8.8	9.3	9.8	11.4	12.7
Men, 25 years and older	3.4	3.2	3.4	3.7	4.7	5.3
Women, 25 years and older	5.1	4.9	4.8	4.9	5.5	5.7
Fulltime workers	5.5	5.2	5.4	5.7	6.6	7.5
White collar	3.5	3.3	3.3	3.4	3.7	3.9
Blue collar	6.8	6.7	7.2	7.9	9.7	11.3
Distribution of unemployment						
Total unemployed	100.0	100.0	100.0	100.0	100.0	100.0
Job losers	41.5	41.6	44.2	46.7	49.8	52.5
Job leavers	14.1	14.8	13.9	12.4	12.8	12.1
Entrants[1]	44.4	43.7	42.0	40.9	37.4	35.4

1. Reentrants plus new entrants.

in February. The unemployment rate again jumped 0.8 percentage point to 7.8 percent, with job losers accounting for about three quarters of the increase in unemployment. Unemployment rate increases occurred for nearly all labor force groups, with an especially large advance for adult males. The rate for blue-collar workers rose substantially, while that for white-collar workers edged up.

The index of industrial production declined 2.1 percent in May, following a similar drop in April. The May index was 4.7 percent below the January level and 5 percent below its most recent peak in March 1979. Output reductions in April and May occurred in all major market groupings, and particularly sizable decreases were recorded for automotive products, home goods, construction supplies, and durable goods materials. Weekly data on raw steel output suggest further large production declines in this sector during June, and truck assemblies were scheduled to be below May levels. However, despite the continued weakness in sales, auto assemblies scheduled for June were about 5 percent higher than May's low 5.5 million unit annual rate.

Recent declines in industrial output have resulted in a sizable increase in unutilized capacity. In May, capacity utilization in manufacturing was 78.9 percent, down 2.0 percentage points from April. The utilization rate for producers of industrial materials fell 2.3 percentage points to 80.2 percent. Both rates have declined around 8.0 percentage points from their most recent highs. Within manufacturing, declines in operating rates were widespread.

INDUSTRIAL PRODUCTION
(Percentage change from previous period; based on seasonally adjusted data)

	1979	1980			Jan. 1980 to
	Q4	Q1	April	May	May 1980
	---annual	rate---	----not	annual	rate----
Total	-0.3	0.0	-2.0	-2.1	-4.7
Final products	0.5	1.0	-1.3	-1.5	-2.7
Consumer goods	-1.6	-2.2	-1.8	-1.7	-3.7
Durable	-6.9	-15.5	-4.9	-4.9	-8.5
Nondurable	0.8	3.2	-.7	-.5	-1.9
Business equipment	1.6	6.2	-.9	-1.2	-1.7
Construction supplies	-.5	-4.9	-4.6	-4.2	-10.6
Materials	-0.8	-1.0	-2.3	-2.6	-5.8
Durable Goods	-5.9	-2.7	-3.6	-3.6	-8.1
Nondurable Goods	6.1	.3	-1.5	-1.7	-5.6
Energy materials	2.5	1.5	.1	-1.5	.8

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1975	1979-80	1979	1980		
	Low	High	Q4	Q1	April	May
Manufacturing	69.0	87.1	84.6	83.7	80.9	78.9
Primary processing	68.2	89.0	86.4	84.8	80.9	77.8
Advanced processing	69.4	86.2	83.6	83.1	80.8	79.5
Motor vehicles & parts	51.3	92.3	71.2	65.5	57.1	53.3
Materials	69.4	88.3	86.3	85.4	82.5	80.2
Durable goods mats.	63.6	87.5	84.0	82.7	78.9	75.9
Raw Steel	68.0	93.9	84.8	84.0	79.1	68.0
Nondurable goods mats.	67.2	91.0	90.4	89.6	86.6	84.8
Energy materials	84.8	87.5	86.6	86.5	86.9	85.5

Consumer Spending

Consumers continued to curtail spending in May. Retail sales in nominal terms fell 1.5 percent, the fourth consecutive monthly decline. Since peaking in January, retail sales have fallen 7-1/4 percent in nominal terms and over 10 percent in real terms--the sharpest four-month drop on record. Excluding autos and mainly nonconsumption items, nominal retail sales edged down again in May to about 1 percent below their January level. A small rebound in GAF outlays in May was more than offset by declines in food.

Total unit auto sales in May were at a 7.3 million unit annual rate, the slowest monthly pace since December 1974; this was down considerably from the 10.6 million unit rate in the first quarter. Despite extensive incentive programs, sales of domestic units averaged only 5.4 million units from mid-April to mid-June, the lowest selling rate for a comparable period in nearly two decades. Significant declines have been recorded for sales of smaller, fuel-efficient models as well as for larger autos. Sales of imported cars were at a 2.1 million unit rate in May, down 7 percent from April and well below the record 3 million unit pace set in January.

The weakness in consumer spending in recent months reflects, among other things, lower real disposable income, depressed consumer confidence and, to some extent, the credit restraint program. Personal income in nominal terms has stagnated since March and has risen only 1 percent since January. Wages and salaries actually declined in April and May as a result of the large reductions in employment. In real terms, disposable income dropped substantially in May for the fourth

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

	1979		1980			
	Q3	Q4	Q1	Mar.	Apr.	May
Total sales	4.0	2.0	2.1	-1.9	-2.3	-1.5
(Real)[1]	2.0	-.4	-1.3	-3.2	-2.8	-1.8
Total, less auto and nonconsumption items	4.0	3.5	2.6	.7	-.5	-.3
GAF[2]	4.6	1.7	-.2	-1.8	-.7	1.0
Durable	4.4	-1.5	.9	-7.9	-6.6	-4.3
Auto	3.7	-3.0	1.5	-10.4	-9.1	-6.8
Furniture & appliances	6.5	-1.1	1.0	-2.9	-2.6	.5
Nondurable	3.8	3.9	2.8	1.2	-.3	-.3
Apparel	4.8	-.7	1.4	-1.6	1.9	2.3
Food	2.3	3.3	2.3	2.9	.5	-.6
General merchandise[3]	3.8	3.7	-1.2	-1.5	-1.0	.7
Gasoline	8.2	7.7	9.3	3.0	.2	.0

1. BCD series 59. Data are available approximately 3 weeks following the CPI release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

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

	1979		1980			
	Q3	Q4	Q1	Mar.	Apr.	May
Total	10.8	9.8	10.6	10.1	8.2	7.3
Foreign-made	2.2	2.4	2.8	2.5	2.2	2.1
U.S.-made	8.6	7.4	7.9	7.6	6.0	5.2
Small	3.6	3.5	4.0	3.7	3.1	2.6
Intermediate & standard	4.9	4.0	3.9	4.0	3.0	2.6

Note: Components may not add to totals due to rounding.

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980 QI	1980 Mar.	1980 Apr.	1980 May
	- - Percentage change, at annual rates[1] - -					
Total personal income	12.9	11.2	8.5	8.3	-1.7	1.7
Wage and salary disbursements	12.8	10.1	10.1	9.0	-6.2	-1.0
Private	14.1	10.8	10.9	10.0	-8.8	-3.1
Nominal disposable personal income	12.0	10.4	11.5	8.6	-1.4	.3
Real disposable personal income	4.2	.5	-2.7	-7.6	-8.8	n.a.
	- - Changes in billions of dollars[2] - -					
Total personal income	$17.8	$16.8	$13.9	$14.3	$-3.0	$ 3.1
Wage and salary disbursements	11.5	9.7	10.4	9.8	-6.8	-1.1
Private	10.1	8.4	9.1	8.8	-7.8	-2.7
Manufacturing	3.2	2.0	2.7	2.1	-4.0	-3.7
Other income	7.1	8.1	4.3	3.3	2.9	5.8
Transfer payments	1.5	2.9	2.4	2.6	1.4	3.6
Less: Personal contributions for social insurance	.8	.9	.8	-1.2	-.9	1.7
Memorandum: Personal savings rate[3]	4.9	4.6	3.7	4.1	4.5	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly period are compounded rates of changes.
2. Average monthly change.
3. For months, rate equals the centered three-month moving average of personal savings as a percentage of the centered three-month moving average of disposable personal income.

BUSINESS INVESTMENT SPENDING
(Percentage change from preceding comparable period;
based on seasonally adjusted data in current dollars)

	1979		1980 Q1	1980 Apr.	1980 May	1980 Q1 to May 1980
Nondefense capital goods shipments	4.6	1.4	6.0	-3.4	1.7	-1.1
Addenda: Ratio of unfilled orders to shipments (months)	6.42	6.59	6.42	6.67	6.52	...
Nonresidential construction	5.8	4.2	3.3	1.4	-.6	

consecutive month, bringing the cumulative decline since the beginning of the year to an estimated 3 percent. During 1979, real disposable income rose by only 1/2 percent.

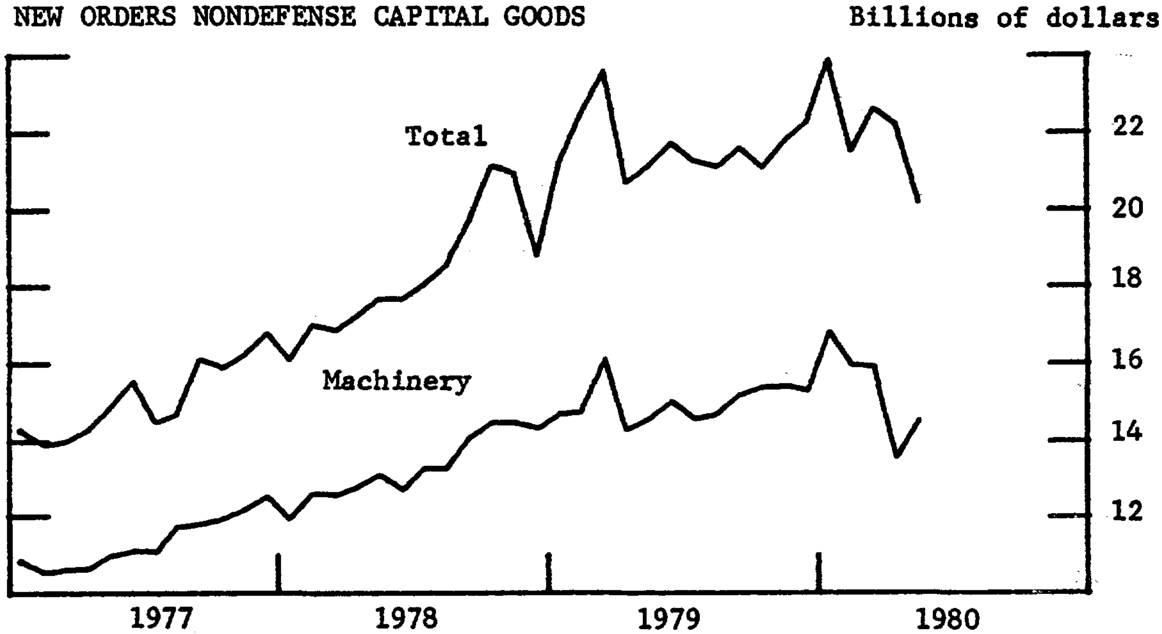
Consumer surveys taken in recent months by the Conference Board and the University of Michigan Survey Research Center reveal very pessimistic attitudes. Both measures of confidence declined further in May, and responses to questions concerning market conditions and intentions to buy major appliances, houses, and cars were at record lows. The Conference Board survey for June, however, reported some improvement in both confidence and buying plans from the depressed May readings.

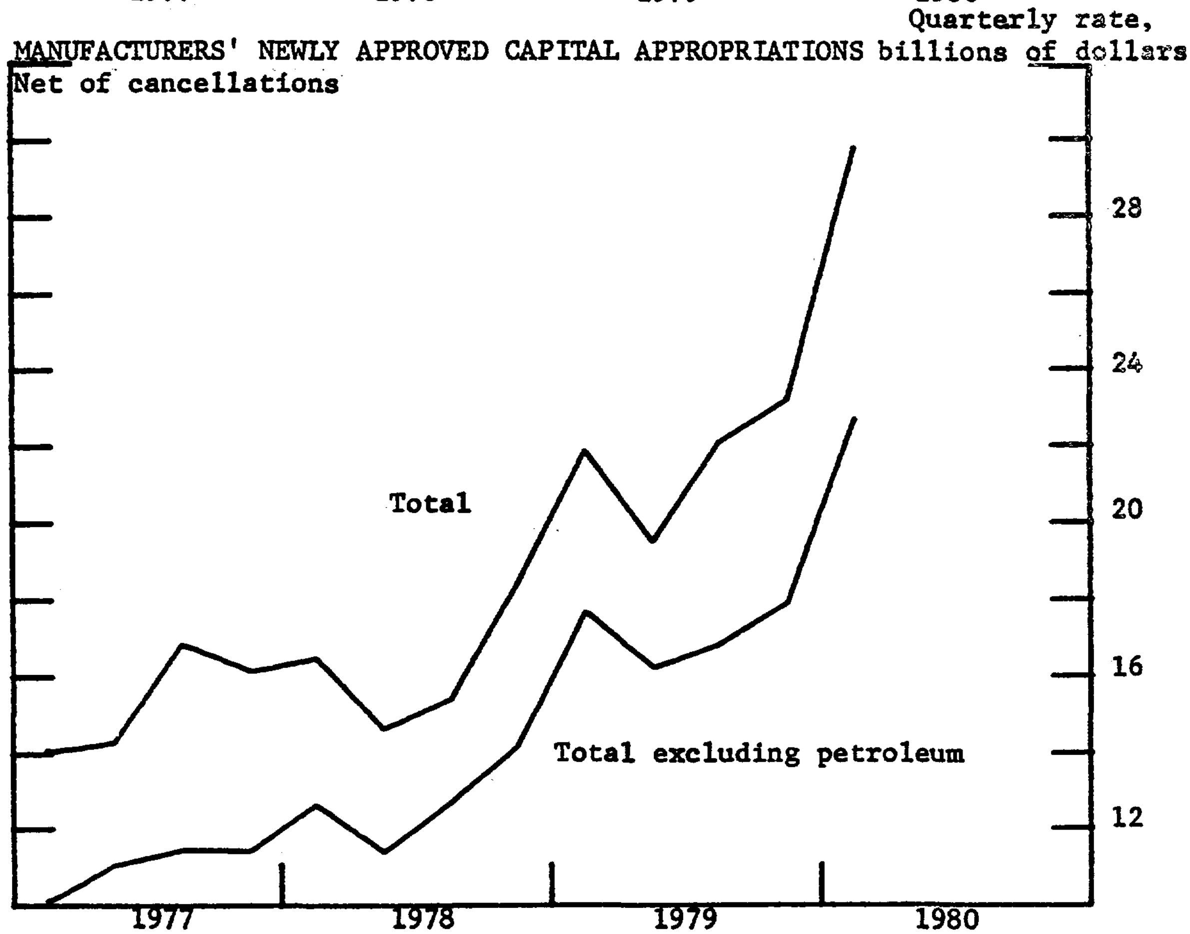
Business Fixed Investment

Business capital spending weakened markedly in the spring. Although shipments of nondefense capital goods rose in May, they remained about 1-1/2 percent below the monthly average in the first quarter. Sales of heavy-weight trucks, which had been on a plateau since the fall of 1979, dropped sharply in April and May; the May selling rate was about one-third below the first quarter pace, and lower than in the 1973-75 recession. Finally, the value of nonresidential construction activity declined in May and now stands about 2-1/2 percent below the first quarter average.

Near-term commitments data suggest that investment spending will continue to weaken in the coming months. New orders for nondefense capital goods dropped about 9 percent in May after a 2 percent decline in April. Since peaking in January, such bookings have dropped more than 15 percent in nominal terms; the drop in May was primarily accounted for by a sharp decline in orders for aircraft and parts, which are

CAPITAL SPENDING COMMITMENTS
(Seasonally adjusted)





quite volatile. Machinery bookings rebounded in May following a very large fall in April. Contracts for commercial and industrial building and nonbuilding construction also fell further in May from the depressed April level; such contracts have been trending down since early 1979.

Recent surveys of capital spending plans give differing indications of the future course of outlays. Capital appropriations of large manufacturers, net of cancellations, rose 28 percent in the first quarter--one of the biggest increases on record. In contrast, the Commerce Department May survey of plant and equipment spending, which tends to be a much better indicator of actual spending, reported that businesses expect to increase spending by 9.9 percent in 1980, down from 11.1 percent in the February survey and well below the 15 percent spending gain recorded in 1979. The latest Commerce reading suggests that there will be a significant slowing in the growth of nominal capital outlays during the last three quarters of 1980 and a decline in real terms.

Inventory Investment

The book value of manufacturers' inventories in May rose at a $7 billion annual rate, but this followed an exceptionally large build-up in April. The increase in total manufacturers' inventories was accompanied by a 1-1/4 percent further decrease in shipments. As a result, the stock-sales ratio for all manufacturers rose further, from 1.69 in April to 1.71 in May.

In April, the book value of total manufacturing and trade inventories increased at a $70 billion annual rate, well above the average pace during the first quarter. On a constant dollar basis,

COMMERCE SURVEY OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

	1979	Planned for 1980	
		February	May
All Business	15.1	11.1	9.9
Manufacturing	16.7	14.3	13.5
Durables	20.7	16.8	12.8
Nondurables	13.1	12.0	14.1
Nonmanufacturing	13.9	8.6	7.0
Mining	16.4	11.5	11.1
Transportation	25.7	16.3	8.2
Utilities	10.5	3.5	1.1
Communications, Commercial and other	13.8	10.0	10.2

ERROR HISTORY OF THE MAY COMMERCE DEPARTMENT SURVEY
(Percent change from prior year)

Year	Anticipated	Actual	Error[1]
1970	7.8	5.5	2.3
1971	2.7	1.9	0.8
1972	10.3	8.9	1.4
1973	13.2	12.8	0.4
1974	12.2	12.7	-0.5
1975	1.6	0.3	1.3
1976	7.3	6.8	0.5
1977	12.3	12.7	-0.4
1978	11.2	13.3	-2.1
1979	12.7	15.1	-2.4

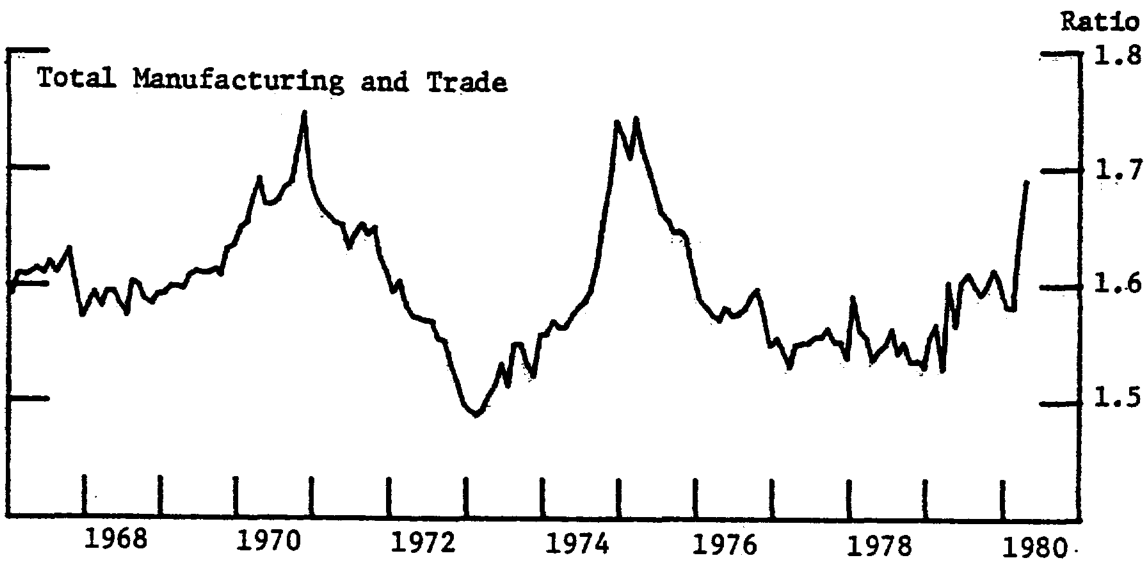
1. Anticipated minus actual percent change.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Annual rate)

	1976	1977	1978	1979	1980 Q1	1980 April	1980 May
Book Value Basis							
Total	25.7	26.7	43.2	47.2	46.1	70.2	n.a.
Manufacturing	12.0	10.1	18.1	29.9	41.1	48.2	7.0
Wholesale	6.2	6.7	12.8	9.1	7.2	7.2	n.a.
Retail	7.5	9.9	12.3	8.1	-2.1	14.8	n.a.
Constant Dollar Basis							
Total	8.3	11.6	12.8	7.7	-1.8	17.5	n.a.
Manufacturing	2.6	4.2	5.3	7.2	5.3	14.3	n.a.
Wholesale	2.8	2.8	4.2	1.0	0.2	1.4	n.a.
Retail	2.8	4.8	3.2	-0.5	-7.3	1.9	n.a.

Totals may not add due to rounding.

INVENTORIES RELATIVE TO SALES
(1972 dollars)



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

	1979			1980			
	Annual	Q3	Q4	Q1	Mar.	Apr.	May[1]
All units							
Permits	1.55	1.63	1.34	1.14	.97	.79	.81
Starts	1.75	1.81	1.59	1.26	1.04	1.04	.92
Single-family units							
Permits	0.98	1.01	.82	.68	.56	.47	.49
Starts	1.19	1.23	1.06	.80	.62	.63	.62
Sales							
New homes	.71	.74	.62	.53	.46	.36	n.a.
Existing homes	3.74	3.81	3.56	2.98	2.75	2.42	n.a.
Multifamily units							
Permits	.57	.62	.52	.45	.41	.32	.32
Starts	.55	.58	.54	.46	.42	.41	.30
Mobile home shipments	.28	.28	.26	.26	.23	.20	n.a.

1. Preliminary estimates.
n.a.--not available.

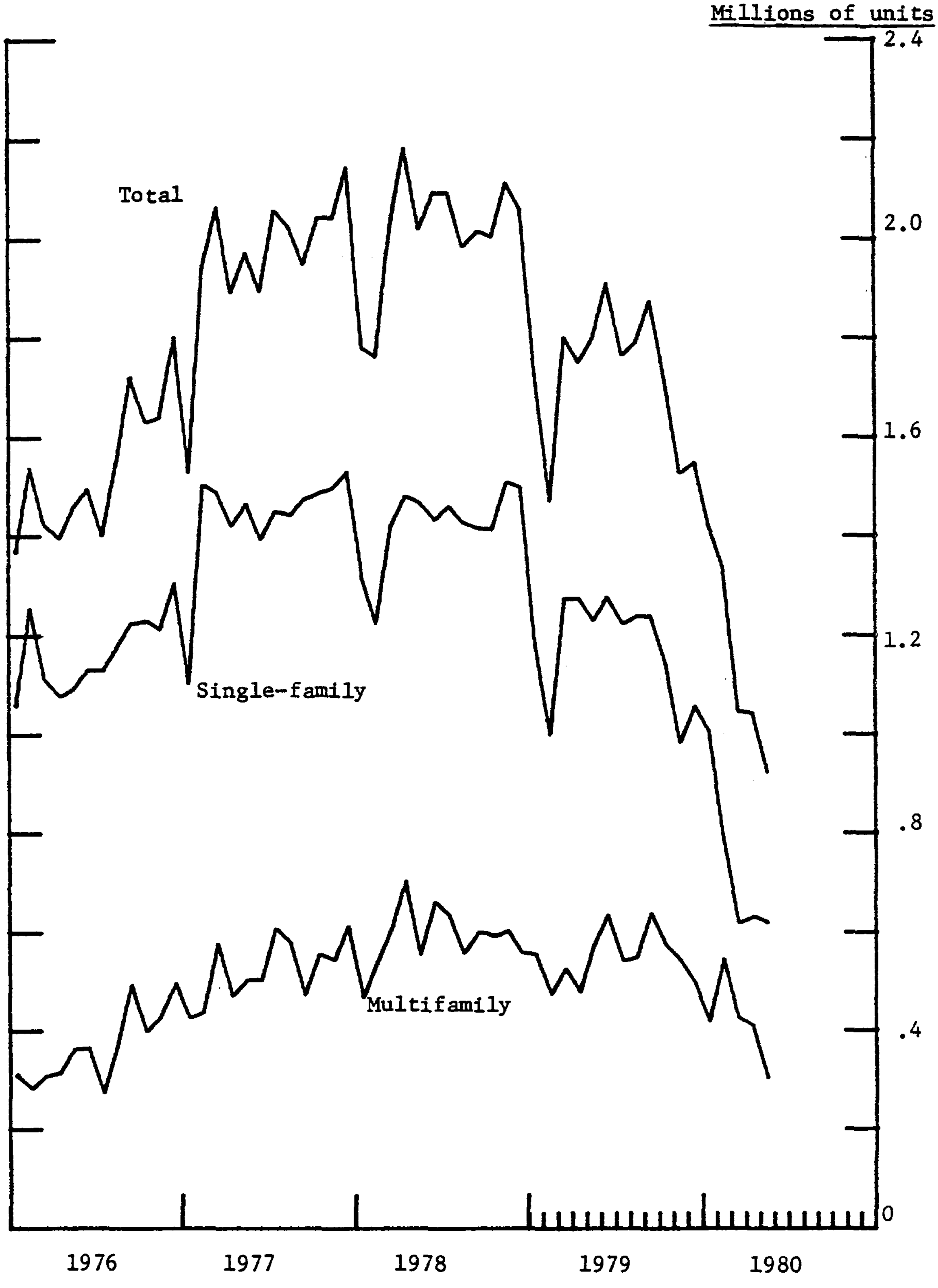
there was a large accumulation following a slight liquidation during the first quarter as a whole. Most of the April increase on a constant dollar basis was at manufacturing, although trade inventories also rose following a substantial decline in the first quarter. The overall advance in real stocks in April was accompanied by an unusually large 2-1/2 percent drop in the real value of shipments and sales. As a result of these movements, the constant-dollar stock-sales ratio for manufacturing and trade rose sharply to 1.7--a level corresponding to that reached in late 1974. Increases in stocks relative to sales were widespread across industries, with particularly sharp rises for automotive products at the retail level and for durable goods at manufacturing.

Residential Construction

In May, residential construction activity continued to be depressed by both real and financial constraints cumulated in prior months. However, there are tentative indications that the cyclical decline in housing activity may be near the bottom, although the recovery is likely to be sluggish. Qualitative reports suggest some improvement in buyer interest in new homes in May, and there are early reports of a rise in building permits in June.

In May, total private housing starts fell 11-1/2 percent to a seasonally adjusted annual rate of 920,000 units--one of the lowest monthly rates of the postwar period. By May, housing starts had dropped somewhat more than one-half since mid-1978, nearly matching the reduction that occurred during the 1973-75 period. The May decline was concentrated in the multifamily sector, where starts fell nearly 25

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



percent to a 304,000 unit rate. Single-family starts were at a depressed 616,000 unit pace, one of the lowest levels since the inception of the series in 1959.

Sales of single-family houses fell 13 percent in April--the seventh consecutive month of decline, as demand weakened in response to tight financial conditions, sluggish personal income growth, and probably somewhat diminished expectations of capital gains in response to smaller house price increases. New-home sales dropped 21 percent in April to their lowest level since 1966. Sales of existing houses, which had fallen 12 percent in April, declined 5 percent further in May.

The average price of new houses sold in April was only 4 percent higher than a year earlier, possibly reflecting purchases of lower priced units as well as reduced demand pressures. The average price of existing homes sold in May was 11 percent above a year earlier compared with the almost 20 percent year-over-year rise posted last summer.

Even though the declines in new-house sales through April spurred some production cutbacks, inventories of unsold new units remained high relative to the dwindling volume of sales. At the end of April, builders had a 12 months' supply on hand--the largest stock-to-sales ratio on record. In the multifamily sector, rental markets have remained relatively tight by historical standards; hence, unlike the 1974-75 period, no significant supply overhang exists.

Federal Government Sector

The federal deficit in the second quarter is now estimated by the staff to have been nearly $45 billion (NIPA basis), up almost $22 billion from the previous period. The increase in the deficit was primarily the result of a slowdown in receipts due to a fall-off in corporate profits tax accruals and slower growth of withheld personal taxes. While the rise of federal expenditures moderated somewhat from the first quarter's rapid pace, spending for defense, unemployment compensation, and public debt interest remained quite strong.

In response to upward pressures on the deficit, Congress passed a revised budget resolution in mid-June that calls for a $47 billion unified deficit for fiscal year 1980, up from last fall's $30 billion estimate. For fiscal year 1981, Congress--after rejecting the administration's oil import fee proposal--agreed to a resolution calling for a $200 million surplus. The Congressional budget projection, however, is based on economic assumptions that were formulated early last spring before the severity of the current downturn was recognized. Moreover, the Congressional estimates did not contain any provision for a fiscal year 1981 tax reduction.

State and Local Government Sector

State and local government spending slowed this spring due to further cutbacks in investment outlays that were only partly offset by increases in payrolls. Investment outlays, as measured by the value of construction put in place, fell 5 percent seasonally adjusted in May--the fourth consecutive monthly decline--to a level nearly 20 percent below the January peak. In contrast, preliminary data indicate that May payroll employment increased by about 40,000 despite a 5,000 decrease in CETA public service employment. The May hiring increase is the largest monthly advance in nearly a year and brings the sector's employment gain thus far this year to a 1.4 percent annual rate--about the same as in 1979.

Prices and Wages

Favorable supply conditions in the food and energy areas contributed to an easing in inflation during April and May. Consumer prices rose at an annual rate of about 11 percent in those months, compared with the 18 percent rate increase during the first quarter. Increases in producer prices of finished goods decelerated even more sharply, increasing at only a 3-1/2 percent annual rate in May after nearly a 19 percent rate rise over the first quarter.

At the consumer level, food prices rose at a moderate pace over the first five months of the year, as declines in meat prices offset much of the increase in other categories. However, livestock prices have turned up in recent weeks, particularly for hogs, and livestock supply prospects for the second half of the year appear less favorable than in the first half.

Since March, there has been a striking slowdown in price increases for gasoline and fuel oil and, as a result, for the energy components of the aggregate indexes. Demand for gasoline continued to fall during the spring, and inventories of petroleum products have risen to record high levels. Consequently, consumer prices of petroleum products have leveled off after climbing about 80 percent from the end of 1978 through the first quarter of 1980.

However, the oil price increases recently announced by OPEC and the continued decontrol of domestic crude oil suggest that the current respite from energy inflation may be only temporary. Moreover, excluding food and energy items, consumer prices continued to rise rapidly in April and May. Homeownership costs rose sharply further, reflecting large increases in house prices and the lagged effects of increases in mortgage commitment rates that occurred in early 1980. Moreover, recent FHLBB data indicate that the mortgage interest component of the CPI will be still higher in June; but recent declines in mortgage commitment rates should begin to have some effect after mid-year.

At the producer level, prices of capital equipment in May were unchanged, following a very large increase in April. Prices of nonfood, nonenergy materials at the intermediate processing stage have changed little in recent months and have come down sharply at the crude processing level. Much of the slowing in intermediate materials reflects declines in prices of nonferrous metals, in part a reversal of the speculative bulge early this year. The downturn in overall economic activity also appears to be a factor in some of these as well as other markets, notably lumber. Price declines at the crude level in May were dominated by reductions in scrap metal prices, also a result of weaker business activity. Since the mid-May PPI pricing date, commodity market data indicate further declines, particularly for scrap metal and lead.

Wages for nonfarm production workers as measured by the index of average hourly earnings rose 7.4 percent at an annual rate in May. Thus far in 1980, the index has risen at an 8.7 percent rate, somewhat higher than last year's pace. Wage adjustments in the manufacturing sector, where cost of living escalator clauses are the most prevalent, have accelerated to a 10 percent annual rate. On average, however, wage rate increases since early 1979 have continued to be moderate relative to the rapid rise in consumer prices.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)1/

	Relative importance2/ Dec. 1979	1978	1979	1980 Q1	1980 Apr.	1980 May
Finished goods	100.0	9.2	12.6	18.9	6.0	3.0
Consumer foods	24.3	11.9	7.6	-1.2	-33.9	1.6
Consumer nonfood	47.4	8.4	18.0	34.2	16.3	5.4
Energy	10.3	8.0	62.7	109.2	45.4	9.8
Exc. energy	37.0	8.5	9.6	17.4	6.7	4.2
Capital equipment	28.4	8.0	8.8	12.7	22.3	.5
Intermediate materials3/	94.9	8.3	16.5	23.1	3.5	1.7
Exc. food and energy	81.4	8.9	13.0	17.2	2.3	1.4
Crude food materials	55.5	18.3	11.1	-16.7	-73.2	29.3
Crude nonfood	44.5	15.6	26.0	21.4	-5.9	.9
Exc. energy	16.0	21.0	13.1	6.6	-61.0	-32.8

1. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
2. Relative importance weights are on a stage of processing basis.
3. Excludes intermediate materials for manufacturing food and animal feed.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)2/

	Relative importance Dec. 1979	1978	1979	1980 Q1	1980 Apr.	1980 May
All items	100.0	9.0	13.3	18.1	11.0	10.4
Food	17.7	11.8	10.2	3.8	6.3	3.9
Energy3/	10.3	8.0	37.4	64.8	10.4	9.6
All items less food and energy3/	72.0	8.5	11.3	15.7	13.3	12.1
Commodities	34.5	7.6	8.8	9.7	7.9	6.7
Services	37.5	9.4	13.6	21.0	18.5	16.8
Memoranda:						
Gasoline	5.6	8.5	52.2	105.7	0.0	-7.3
Homeownership	24.9	12.4	19.8	24.1	23.0	21.4

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.

HOURLY EARNINGS INDEX[1]
(Percent change at compound annual rates;
based on seasonally adjusted data)[2]

	1978[3]	1979[3]	1980 Q1[3]	1980 Apr.	1980 May
Total private nonfarm	8.4	8.1	9.7	5.4	7.4
Manufacturing	8.4	8.8	9.7	10.5	9.9
Durable	8.5	8.6	10.5	10.0	9.4
Nondurable	8.2	9.2	8.3	11.3	10.8
Contract construction	7.4	6.7	5.6	.6	2.6
Transportation and public utilities	7.4	9.1	7.8	5.6	6.4
Total trade	9.5	7.6	12.1	2.2	7.3
Services	7.6	7.7	9.5	2.9	8.6

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes for other than monthly and yearly periods are compounded.
3. Changes are from final quarter of preceding period to final quarter of period indicated, except monthly changes which are from preceding month.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Level	Net Change from: Month ago	Three months ago	Year ago
	$ billions		Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	June	43.4	-0.7	0.9	6.3
Nonborrowed reserves	June	43.0	18.6	25.5	9.3
Money supply					
M-1A	June	372.2	14.4	-1.0	3.6
M-1B	June	391.8	17.4	0.6	4.8
M-2	June	1584.2	17.2	8.1	8.1
M-3	June	1841.8	12.1	7.1	8.6
CB gross time and savings deposits	June	691.7	-1.2	6.8	10.5
Total thrift deposits (S&Ls + MSBs + Credit Unions)	June	681.8	9.0	6.8	5.7
Bank credit	June	1158.2	-5.6	-2.4	8.1

		Latest data Period	Percent or index	Net Change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	6/25/80	9.08	-.38	-8.70	-1.24
Treasury bill (90 day)	" "	6/25/80	7.12	-.55	-8.49	-1.73
Commercial paper (90-119 day)	" "	6/25/80	8.08	-.14	-8.73	-1.60
New utility issue Aaa	" "	6/27/80	10.88	-.64	-3.34	1.45
Muncipal bonds (Bond Buyer) 1 day	1 day	6/26/80	7.76	.04	-1.68	1.64
FNMA auction yield (FHA/VA)		6/30/80	12.28	-.31	-3.65	1.54
Dividend price ratio (common stocks)	wk. endg.	6/25/80	5.29	-.53	-1.02	-.23
NYSE index (12/31/65=50)	end of day	6/30/80	65.34	1.90	7.69	6.96

	Period	Net Change or Gross Offerings: Latest data	Year ago	Year to date 1980	1979
Credit demands					
Business loans at commercial banks[1]	May	-3.1	3.4	7.6	19.9
Consumer instalment credit outstanding[1]	April	-2.0	4.1	3.1	14.4
Mortgage debt outstanding (major holders)[1 2]	April	3.8	7.9	24.4	33.7
Corporate bonds (public offerings)	May	6.7e	2.0	16.4e	9.5
Municipal long-term bonds (gross offerings)	June	5.8e	4.7	23.2e	21.3
Federally sponsored agcy. (net borrowing)	May	1.7e	1.1	14.1e	9.6
U.S. Treasury (net cash borrowing)	May	5.4	1.8	29.1	7.5

1/ Seasonally adjusted.
2/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.
e - Estimated.

The narrow monetary aggregates strengthened considerably in June, but remain low relative to the FOMC's longer-run ranges for 1980. Open market operations have been accommodative in the period since the May 20 FOMC meeting, providing enough nonborrowed reserves to hold discount window adjustment borrowing at frictional levels. The federal funds rate has declined about 1-1/2 percentage points to a range of 8-1/2 to 9-1/2 percent, while the discount rate was lowered in two equal steps from 13 to 11 percent.

Market interest rates generally fell substantially following the May meeting and then retraced much of their decline. On balance, most private short-term market interest rates have dropped roughly 1 percentage point while corporate bond yields have declined about 1/2 percentage point. Yields on Treasury securities have shown much smaller declines. Municipal bond yields, in contrast, increased about 30 basis points over the intermeeting period. Administered rates such as bank prime rates and home mortgage rates recently have fallen relatively sharply; still, they remain at large spreads above yields on market instruments of comparable maturity.

Business borrowing appears to have strengthened since April but has remained below the first quarter pace. Such borrowing was heaviest in the bond market, as corporations responded to the drop in yields by moving to lengthen the maturity of their outstanding debt. Reflecting also the relative rate structure for short-term borrowing, sharp declines in business loans at banks were essentially offset by a surge in the growth of commercial paper.

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent)

	1979[1] FOMC Oct. 5	1980[1] Mar-Apr High	FOMC May 20	Intermeeting Lows**	July 1	Change from: Mar-Apr High	FOMC May 20
Short-term rates							
Federal funds[2]	11.91	19.39	10.71	8.99	9.46p	-9.93	-1.25
Treasury bills							
3-month	10.70	16.00	8.29	6.18	8.04	-7.96	-.25
6-month	10.63	15.64	8.31	6.60	7.98	-7.66	-.33
1-year	10.28	14.58	8.38	7.00	7.96	-6.62	-.42
Commercial paper							
1-month	11.73	18.00	9.71	7.98	8.85	-9.15	-.86
3-month	11.86	17.69	9.62	7.78	8.50	-9.19	-1.12
6-month	11.84	17.25	9.38	7.59	8.38	-8.87	-1.00
Large negotiable CDs[3]							
1-month	12.09	17.87	9.84	7.96	8.63	-9.24	-1.21
3-month	12.50	18.59	9.83	7.90	8.65	-9.94	-1.18
6-month	12.80	18.47	9.80	7.66	8.84	-9.63	-.96
Eurodollar deposit[2]							
1-month	12.45	19.04	10.26	8.88	9.30	-9.74	-.96
3-month	12.79	19.60	11.09	8.99	9.61	-9.99	-1.48
Bank prime rate	13.50	20.00	16.50	12.00	12.00	-8.00	-4.50
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	10.01	14.53	9.23	8.56	9.23p	-5.30	0
10-year	9.60	13.65*	10.22	9.47	10.12p	-3.53	-.10
30-year	9.36	12.85*	10.47	9.49	10.14p	-2.71	-.33
Municipal (Bond Buyer)[4]	6.64	9.44	7.44	7.44	7.76	-1.68	.32
Corporate Aaa							
New issue[5]	10.22	14.22	11.43	10.53	10.88p	-3.34	-.55
Recently offered[6]	10.25	14.12	11.65	10.79	11.03p	-3.09	-.62
Primary conventional mortgages[6]	11.35	16.35	14.15	12.35	12.35	-4.00	-1.80

	FOMC Oct. 5	Mar-Apr Low	FOMC May 20	Intermeeting Highs	July 1	Mar-Apr Low	FOMC May 20
Stock prices							
Dow-Jones Industrial	897.61	759.13	832.51	881.91	872.27	113.14	39.76
NYSE Composite	63.39	55.30	61.35	66.36	65.73	10.43	4.38
AMEX Composite	235.15	215.69	259.73	297.60	297.60	81.91	37.87
NASDAQ (OTC)	152.29	124.09	146.93	159.18	158.17	34.08	11.24

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. Averages for preceding week.
6. One-day quotes for preceding Friday.

*--Highs reached on February 26.
**-Most lows occurred on or around June 13.

Governments have been placing substantial demands on the credit market. Municipal bond offerings continued sizable in May and June, bolstered by heavy issuance of housing revenue bonds. With a runoff in its nonmarketable debt and a need to increase its cash balance, Treasury marketable borrowing also has been heavy on a seasonally adjusted basis. In May and June, the Treasury raised large amounts of new money both in the coupon sector and in the regular bill cycles to offset a substantial volume of maturing cash management bills.

Household sector borrowing, in contrast, has continued very weak. Reflecting declining real incomes, sharp increases in finance charges, and less accommodative credit standards, consumer credit outstanding contracted sharply in April and May; it appears to have weakened further in June. Mortgage lending activity also declined further in May and evidently remained sluggish in June, with the drop in mortgage rates apparently eliciting only a little additional demand for loan commitments to date.

Monetary Aggregates and Bank Credit

Following a sharp drop in April, M-1A grew at a 3/4 percent annual rate in May and then expanded at a 14-1/2 percent annual rate in June. The progressive strengthening of M-1A reflected a rebound in the expansion of currency beginning in May and a resumption of growth in demand deposits during June after three monthly declines. M-1B grew, on balance, at roughly the same pace as M-1A over the May-June period. Even with the recent resurgence, the contraction of the narrow money stock measures for the second quarter as a whole was virtually unprecedented, and although nominal GNP apparently was little changed,

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1979 Q4	1980 Q1p	Q2	Apr.	May[p]	June[e]	June '79 to June '80[e]
	---- Percentage change at annual rates ----						
Money stock measures							
1. M-1A	4.5	4.8	-3.5	-17.7	0.7	14.4	3.6
2. M-1B	5.0	5.9	-2.1	-14.1	-1.2	17.4	4.8
3. M-2	7.1	7.2	5.4	-1.9	9.1	17.2	8.1
4. M-3	9.1	7.7	5.5	0.5	8.6	12.1	8.6
Selected components							
5. Currency	8.5	8.3	7.4	1.1	12.1	10.9	9.1
6. Demand deposits	2.9	3.4	-8.0	-25.4	-4.2	15.4	1.3
7. Other checkable deposits, NSA[2]	12.6	29.3	31.8	66.7	-37.9	78.3	34.2
8. M-2 minus M-1B (9+10+11+14)	7.8	7.6	7.9	2.2	12.0	17.7	9.2
9. Overnight RPs and Eurodollars, NSA[3]	-33.1	-7.5	-75.1	-209.8	88.7	-16.5	-26.4
10. Money market mutual fund shares, NSA	120.0	149.9	79.4	4.0	95.0	141.3	197.2
11. Commercial banks	8.6	6.9	9.8	14.1	5.6	11.2	9.3
12. savings deposits	-16.5	-19.3	-22.6	-43.3	-7.5	32.9	-12.5
13. small time deposits	32.1	29.1	33.9	54.4	14.1	-3.1	30.7
14. Thrift institutions	3.7	-0.4	3.7	1.9	7.0	8.4	3.3
15. savings deposits	-26.0	-22.7	-28.6	-45.4	-21.5	6.7	-18.6
16. small time deposits	22.3	11.9	20.1	25.0	19.8	9.5	17.3
17. Large time deposits	28.3	17.3	10.0	18.3	6.7	-25.6	16.8
18 at commercial banks, net[4]	20.2	9.5	6.8	15.9	2.4	-29.5	10.0
19. at thrift institutions	90.8	72.6	31.3	28.2	34.4	-2.3	61.0
20. Term RPs, NSA	-16.0	-33.2	-20.9	-8.9	-4.5	44.8	-14.2
	—Average monthly change in billions of dollars—						
MEMORANDA:							
21. Managed liabilities at commercial banks (22+23)	-1.6	8.0	n.a.	-6.0	-2.0	n.a.	n.a.
22. Large time deposits, gross	2.0	3.1	0.0	3.2	1.7	-4.9	2.2
23. Nondeposit funds	-3.6	4.9	n.a.	-9.2	-3.7	n.a.	n.a.
24. Net due to related foreign institutions, NSA	-2.5	1.6	n.a.	-6.0	-3.8	n.a.	n.a.
25. Other[5]	-1.1	3.2	n.a.	-3.1	0.1	n.a.	n.a.
26. U.S. government deposits at commercial banks[6]	-1.0	-0.2	0.3	1.1	0.8	-1.0	-0.1

1. Quarterly growth rates are computed on a quarterly average basis.
2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loans RPs, and other minor items.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
e--estimated. n.a.--not available. p--preliminary.

the public's demand for cash balances was exceptionally weak in light of the substantial decline in interest rates.

With its nontransactions component also showing a progressive acceleration in May and June, the broader M-2 measure was considerably stronger than the narrow aggregates over the past quarter. This strength may be a reflection of the increase in personal saving that has occurred in recent months. The pattern of asset growth also seems consistent with a desire on the part of households to bolster their liquidity in light of the prevailing economic uncertainties--or at least to avoid longer-range financial commitments until the implications of recent interest rate declines for investment alternatives are more fully assessed.

Inflows to money market mutual funds were extraordinarily large in May, running $2 billion and more per week, and they tapered down only to $1-1/4 billion per week by late June.[1] Most of the growth was recorded by the "first generation" funds, many of which reopened their doors to new investors in early May. Such funds have continued to report yields well in excess of the rates offered by money market instruments or by money market certificates (MMCs) at banks and thrifts.

At depository institutions, savings accounts have strengthened as inflows to consumer-type time deposits have slackened. Indeed, at commercial banks, savings deposits are estimated to have registered growth in excess of 30 percent at an annual rate in June, while small time deposits contracted. The resumption of net inflows into saving deposits

1. See Appendix A.

may be attributable in part to the sharply decreased spread between market yields and passbook rates. Moreover, it seems likely that there also is an appreciable element of the liquidity preference noted above.

Within the small time deposits component, 2-1/2 year small saver certificates (SSCs) have replaced MMCs as the area of growth. With an upward sloping yield curve, many investors apparently are choosing to lock in the higher yields that recently have been available on SSCs.[1] In May, SSCs expanded by $13.7 billion, while outstanding MMCs fell $8.3 billion, registering their first monthly decline since they were authorized. Although in June the regulatory ceilings on MMCs and SSCs exceeded the yields on U.S. government securities of similar maturities, institutions reportedly are still paying the ceiling rates, and the pattern of strength in SSCs and weakness in MMCs evidently is continuing.

Total bank reserves declined slightly in May and June, continuing the slowdown that began in April; however, nonborrowed reserves increased at a 14-1/2 percent annual rate in May and at an 18-3/4 percent pace in

1. Recent DIDC actions established the nominal MMC ceiling at banks as the higher of 7.75 percent or the 6-month bill yield plus 25 basis points. At thrifts the MMC nominal ceiling is the higher of 7.75 percent or the bill yield plus 50 basis points up to an 8.50 percent bill yield; it is 9 percent when bills yield between 8.50 and 8.75 percent; and it is the bill yield plus 25 basis points when bill yields are 8.75 percent or more. The SSC ceiling is the yield on 2-1/2 year government obligations for thrifts and 25 basis points less for banks; the minimum ceiling on the 2-1/2 year account is 9-1/4 percent and 9-1/2 percent at banks and thrifts, respectively. The "cap"--12 percent for thrifts and 11-3/4 percent for banks--remains unchanged. For the last two weeks of June, (compounded) ceilings for MMCs and SSCs were 8.01 and 9.83 percent, respectively, at commercial banks and 8.01 and 10.11 percent at thrift institutions.

June. Given the more ample provision of nonborrowed reserves and a fall-off in the special assistance to First Pennsylvania Bank, total borrowing at the discount window in recent weeks has fallen to as low as $300 million compared to about $2-1/2 billion per week in April.

Bank credit dropped for the second consecutive month in May. Loans contracted at a 14-1/4 percent annual rate--the largest monthly decline reported in 31 years--more than offsetting a rebound of investment holdings. Business and consumer loans fell sharply, and growth in real estate lending remained near previous cyclical lows. Loans weakened at both large and small banks.[1] Based on early reports, total loans are estimated to have declined at an 11 to 12 percent annual rate in June.

Managed liabilities fell $2 billion in May, continuing the April decline. The net reduction reflected lower net Eurodollar borrowings, which more than offset increases in large time deposits. All components of managed liabilities appear to have declined in June. The 7-1/2 percent increase in the base for calculating marginal reserve requirements, effective in late May, contributed to a $7-1/2 billion reduction in liabilities subject to such requirements.

1. Through May, total loans at largely agricultural banks are estimated to have fallen a little more than 1 percent (NSA) since the beginning of the year, compared with an increase of 4-1/4 percent over the same period in 1979. Partly because of this reduced loan demand, the severe liquidity pressure that many midwestern agricultural bankers had expected to occur during the spring planting season did not materialize. As of mid-June, while a total of 117 banks had established aggregate credit lines of $105 million under the Federal Reserve's Temporary Seasonal Credit program, only four banks had borrowed a total of $1 million.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1979 Q3	1979 Q4	1980 Q1	1980 Mar.	1980 Apr.	1980 May.[e]	May. '79 to May. '80[e]
	---------- Commercial Bank Credit ----------						
1. Total loans and investments at banks[2]	15.8	3.4	11.5	2.6	-4.3	-5.6	8.1
2. Investments	8.5	3.5	7.3	2.1	-4.5	20.7	6.9
3. Treasury securities	1.7	-5.9	3.0	-3.8	-16.5	19.3	0.6
4. Other securities	12.1	8.3	9.4	4.9	1.2	21.4	10.1
5. Total loans[2]	18.2	3.4	12.8	2.7	-4.2	-14.3	8.5
6. Business loans	22.7	6.0	16.4	5.9	-5.1	-12.3	11.6
7. Security loans	8.7	-88.5	-32.8	-61.0	-21.4	-43.6	-30.6
8. Real estate loans	14.7	14.2	11.9	9.2	2.4	2.4	12.2
9. Consumer loans	7.5	5.5	3.7	0.0	-14.3	-23.1p.e.	1.9p.e.
	— Short- and Intermediate-Term Business Credit —						
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	27.4	6.4	22.0	15.6	0.3r	n.a.	n.a.
11. Business loans net of bankers acceptances[1]	21.7	6.3	17.6	10.6	-4.9	-14.6	11.6
12. Commercial paper issued by nonfinancial firms[3]	69.7	15.5	76.2	80.5	37.7	119.7	68.9
13. Sum of lines 11 & 12	25.7	7.0	23.1	17.6	-0.4	0.0	16.3
14. Finance company loans to business[4]	9.4	4.0	-2.8	3.4	0.0	n.a.	n.a.
15. Total bankers acceptances outstanding[4]	74.9	4.6	54.1	19.7	4.8r	n.a.	n.a.

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Average of Wednesdays.
4. Based on average of current and preceding ends of months.
e—estimated. n.a.—not available. p.e.—preliminary estimate. r—revised.

Business Finance

Business financing needs appear to have expanded recently, as the slowing of economic activity has reduced profits and increased inventory accumulation. To meet these needs, businesses apparently continued to run down liquid asset holdings acquired in the first quarter. In addition, firms stepped up their external financing activity relative to April. This borrowing was concentrated in commercial paper and bond markets as the relatively high cost of bank credit induced businesses to shift their credit demands elsewhere.

Reductions in the prime rate are continuing to lag those in market interest rates. In May, the spread between the prime rate and the rate on commercial paper widened to an unprecedented 7-1/4 percentage points. More recently, this spread has narrowed to about 3 percentage points but is still large by historical standards. Even with the substantial portion of short-term loans made below prime--apparently concentrated in very short maturity credits at money center banks--the average effective rate on business loans in early May was still well above the commercial paper rate according to the Survey of Terms of Bank Lending. Thus, net issues of commercial paper by nonfinancial firms surged to a record $4.2 billion in May and continued to expand rapidly in the first three weeks of June. At the same time, bank business loans, net of bankers acceptances held, declined $3.5 billion in May and apparently continued weak in June.

Businesses also have been borrowing heavily in the bond market. Gross public corporate bond offerings totaled a record $7.5 billion in May on a seasonally adjusted basis and $6.4 billion in June. New

GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES
(Monthly totals or monthly averages; in millions of dollars)

	1980				
	Q1	Q2[p]	May[p]	June[p]	July[f]
	-------- Seasonally adjusted --------				
Corporate securities--total	5,220	7,400	9,230	7,925	6,200
Publicly offered bonds	1,895	5,575	7,475	6,350	4,400
Privately placed bonds	1,740	860	840	800	800
Stocks	1,585	965	915	775	1,000
	------ Not seasonally adjusted ------				
Publicly offered bonds--total	1,954	5,850	6,700	7,000	5,000
By quality[1]					
Aaa and Aa	1,020	3,225	3,800	4,000	--
Less than Aa	934	2,625	2,900	3,000	--
By type of borrower					
Utility	1,175	1,305	1,510	1,375	--
Industrial[3]	440	2,985	3,215	3,575	--
Financial	339	1,560	1,975	2,050	--
Foreign securities--total[4]	233	360	179	500	400

p--preliminary. f--forecast.
1. Bonds categorized according to Moody's bond ratings.
2. Includes issues not rated by Moody's.
3. Includes equipment trust certificates.
4. Includes both publicly offered and privately placed issues.

longer-term note and bond offerings by industrial corporations averaged $3.4 billion per month over the May-June period compared with an average of only $440 million per month during the first quarter. Moreover, in sharp contrast to other recessionary periods, a relatively large proportion of these issues has been sold by lower-rated concerns.

Despite the heavy volume of new offerings, corporate bond yields have declined another 40 to 65 basis points on balance since the May FOMC meeting. Such yields now have dropped about 3 percentage points from their all-time peaks of late March. Furthermore, risk spreads on corporate securities recently have narrowed somewhat, although they still are much wider than those that prevailed over the first three quarters of last year.

The major stock price indexes have advanced 5 to 15 percent since the May FOMC meeting, as investors seem to have given more weight to the decline in interest rates than to the prospects of lower earnings associated with the contraction in economic activity. Gross offerings of new equity issues tapered off in May and June from the heavy pace recorded earlier this year. Nevertheless, such offerings remained relatively large by historical standards, reflecting the improvement in stock prices and efforts by businesses to strengthen balance sheets.

Government Debt Markets

Treasury financing operations have been hampered since late May by Congressional delay in raising the debt ceiling. After extending the $879 billion ceiling for five and then twenty-five days, the Congress acted in late June to raise the debt ceiling to $925 billion through February 1981. With the public debt fluctuating just under the

GOVERNMENT SECURITY OFFERINGS
(Monthly totals or monthly averages, billions of dollars)

	1980				
	Q1	Q2 e/	May	June e/	July f/
	Seasonally adjusted				
State and local government securities, gross offerings					
Total	4.71	6.60	6.30	6.20	7.30
Long-term	2.73	4.80	4.20	4.70	4.30
Short-term	1.98	1.80	2.10	1.50	3.00
U.S. government securities, net offerings					
U.S. Treasury[1]	9.55	4.90	14.14	-0.73	5.59
Sponsored agencies	3.06	1.83	-0.10	0.03	2.70
	Not seasonally adjusted				
State and local government securities, gross offerings					
Total	4.34	7.85	6.70	7.60	6.50
Long-term	2.68	5.20	4.80	5.80	4.00
Housing revenue bonds	0.85	1.47	1.07	1.62	1.50
Single-family	0.75	1.42	1.00	1.55	1.40
Multi-family	0.10	0.05	0.07	0.07	0.10
Short-term	1.66	2.65	1.90	1.80	2.50
U.S. government securities, net offerings					
U.S. Treasury[1]	10.82	1.01	12.34	-4.18	4.00
Bills	7.91	-4.17	6.39	-10.97	1.70
Coupons	2.91	5.18	5.95	6.79	2.30
Sponsored agencies	2.57	2.01	0.15	0.50	3.05

e--estimate. f--forecast.
1. Marketable issues only.

$879 billion limit throughout much of June, the Treasury had to restructure or reschedule a number of its auctions. Even so, the Treasury raised $2.8 billion of new cash in the market between the May FOMC meeting and the end of June. Over this period, the Treasury sold $6.8 billion of new coupon issues and added about $5 billion to the regular bill cycles while redeeming on a net basis $9 billion of cash management bills. Marketable borrowing needs again were increased in May and June by a paydown of nonmarketable debt; however, the runoff of savings bonds appears to have slowed somewhat as market interest rates have fallen.

After borrowing heavily over the first four months of the year, the three major federally sponsored credit agencies raised almost no new money in the aggregate over May and June. The Federal Farm Credit Banks raised $1 billion in May and another $500 million in June, but this borrowing was offset by reductions at the two major housing credit agencies. The weakness of demand for home mortgages and the increase in deposit flows greatly reduced the demand for FHLB advances, and the sluggish deliveries of mortgages under prior commitments reduced FNMA needs for external financing. Accordingly, FNMA ran off $1.5 billion of debt over the May-June period, and the FHLB system did no net borrowing during these two months.

State and local governments continued to borrow heavily in the bond market. Tax-exempt bond offerings totaled $4.2 billion (seasonally adjusted) in May, down about $1-1/2 billion from April but still substantially above the depressed pace of the first quarter. The June volume rebounded from May but did not match the near-term peak recorded in April. Mortgage revenue bonds--predominantly to provide financing for

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

Period	Conventional home mortgages: Average rate on new commitments for 80% loans (percent)	Conventional home mortgages: Basis point change from month or week earlier	Spread[1] (basis points)	Percent of S&Ls[2] with mortgage funds in short supply
1979--High	12.90	--	+174	88
Low	10.38	--	+64	54
1980--Jan.	12.88	-2	+118	85
Feb.	13.03	+15	-22	84
Mar.	15.28	+225	+139	89
Apr.	16.33	+105	+369	86
May 2	15.90	-35	+385	87
9	14.68	-122	+313	89
16	14.15	-53	+250	85
23	13.38	-77	+178	82
30	13.20	-18	+165	81
June 6	13.06	-14	+178	77
13	12.85	-21	+200	73
20	12.58	-27	+179	70
27	12.35	-23	+132	76

1. Average mortgage rate minus average yield on recently offered Aaa utility bonds.
2. Percent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions) Offered	Conventional: Amount ($ millions) Accepted	Conventional: Yield to FNMA[1]	Government-underwritten: Amount ($ millions) Offered	Government-underwritten: Amount ($ millions) Accepted	Government-underwritten: Yield to FNMA[1]	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery[2]
1979--High	454	172	13.97	1,035	448	13.29	11.77
Low	19	18	10.92	37	19	10.42	9.51
1980--May 5							11.03
12	120	53	13.81	236	101	13.16	11.26
19							11.78
27	160	56	13.27	373	113	12.59	11.12
June 2							11.52
9	110	43	13.05	333	146	12.42	10.89
16							10.79
23	60	33	12.81	269	120	12.28	10.73
30							11.27

1. Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.
2. Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA-VA mortgages typically carrying the prevailing ceiling rate on such loans.

single-family housing--have been accounting for about one-quarter of the tax-exempt volume in recent months. Municipal bond yields have increased about 30 basis points since the May FOMC meeting, even as other long-term yields generally have declined. The relatively poor performance of the tax-exempt market may partially reflect a falloff in demand by property/casualty insurance companies which are reported to be facing increased underwriting losses.

Mortgage Markets

Average interest rates on new commitments for conventional home mortgages at sampled S&Ls have fallen by 1-3/4 percentage points since mid-May to a level of 12.35 percent. By late June, average rates in all major regions of the country were close to this national figure, although there have been scattered reports of rates of 12 percent or less. Seventy-six percent of the reporting S&Ls indicated that the supply of mortgage funds was below normal seasonal patterns and 32 percent reported funds in substantially short supply--compared with recent highs of 93 and 59 percent, respectively.

The sharp decline in mortgage interest rates is in part attributable to the pickup in thrift institution deposit flows and the evident weakness in loan demand. Despite earlier substantial rate declines, commitment activity at S&Ls slowed somewhat further in May and net mortgage lending turned negative on a seasonally adjusted basis. Mortgage commitments outstanding declined by 7 percent to $19.2 billion. Adjusted for the rise in home prices, the backlog of commitments outstanding was below the level reached at the last cyclical trough in late 1974. A special survey of large S&Ls conducted by the FHLBB indicated that about three-fifths of respondent associations further liberalized their home mortgage commitment policies during the first half of June (primarily by cutting mortgage interest rates), and there was a modest decline from May in the number of S&Ls reporting commitment activity substantially below earlier volume. This survey revealed that about a fourth of the S&Ls had begun offering the renegotiable rate mortgages authorized by the FHLBB in April; three-fourths of S&Ls offering RRMs continued to offer standard fixed-rate, level-payment mortgages.

Although rates on conventional home mortgages have fallen sharply since late April, they remain quite high relative to yields on various types of long-term fixed-income securities. Even so, there are few indications that the major private diversified institutions that invest in both conventional mortgages and bonds--mutual savings banks, commercial banks, and life insurance companies--have so far channeled enlarged amounts of funds into home loans. Many of these institutions have been experiencing sluggish flows of lendable funds. Moreover, risk differentials required by diversified investors may have widened somewhat due partly to a rise in some mortgage delinquency rates since mid-1979, and preferences for liquidity or marketability also may have intensified since last fall given the increased volatility of market interest rates.

In contrast to the last cyclical downturn, federal and related agencies operating in the secondary mortgage markets have provided only modest support to residential mortgage and housing activity. Rate-subsidy programs which operate through the secondary market agencies have not been enacted by the federal government in this downswing, and FNMA's pricing of its purchase commitments has not been particularly aggressive owing partly to earnings problems experienced by this agency during recent quarters. Indeed, new commitments issued by FNMA have been rather sluggish since last October, and commitments outstanding at the end of April (latest data available) were down to $4.2 billion from $8.2 billion six months earlier. On the other hand, market support provided by state and local government agencies has been much larger than in earlier periods; issues of mortgage revenue bonds amounted to nearly $7 billion during the first half of this year.

Consumer Credit

Consumer installment credit outstanding contracted at an 8 percent annual rate in April, the first drop since May 1975 and the largest in the postwar era. Substantial declines in most major types of closed-end and revolving credit contributed to the falloff. By type of lender, the contraction in consumer credit was heavily concentrated at commercial banks and credit unions. Advance estimates for May indicate a decrease of much the same magnitude as in April, and bank holdings of consumer credit evidently declined further in June.

A special survey of consumer lenders conducted in mid-June by the Federal Reserve Banks indicated that demand for consumer loans had continued to weaken since early May. Reduced demands were noted by a majority of the respondent banks and finance companies; a preponderance of commercial banks and retailers also reported declining credit card usage. On the supply side of the market, more than half of the respondents reported unchanged lending policies. Only for auto credit at commercial banks were lending standards more accommodative on balance. At

CONSUMER INSTALLMENT CREDIT[1]

	1978	1979	1979 Q4	1980 Q1	1980 Mar.	1980 Apr.
Total						
Change in outstandings						
Billions of dollars	44.8	35.5	23.8	20.4	17.2	-23.8
Percent	19.4	12.9	7.9	6.6	5.6	-7.6
Bank share (percent)	53.1	37.8	21.4	24.2	1.2	*
Extensions						
Billions of dollars	298.4	322.6	319.3	321.6	319.4	270.6
Bank share (percent)	47.8	46.4	44.9	44.1	42.5	41.4
Liquidations						
Billions of dollars	253.5	287.1	295.6	301.2	302.2	294.4
Ratio to disposable income (percent)	17.4	17.7	17.6	17.3	17.3	17.0
Automobile credit						
Change in outstandings						
Billions of dollars	19.6	12.6	6.8	9.0	4.7	-7.7
Percent	23.6	12.3	6.0	7.8	4.1	-6.6
Extensions						
Billions of dollars	89.0	91.9	87.5	90.7	86.9	68.7
Revolving credit						
Change in outstandings						
Billions of dollars	7.8	8.3	7.6	5.9	7.3	-4.7
Percent	19.8	17.6	15.2	11.0	13.8	-8.7
Extensions						
Billions of dollars	104.6	120.8	124.9	128.0	132.5	123.5

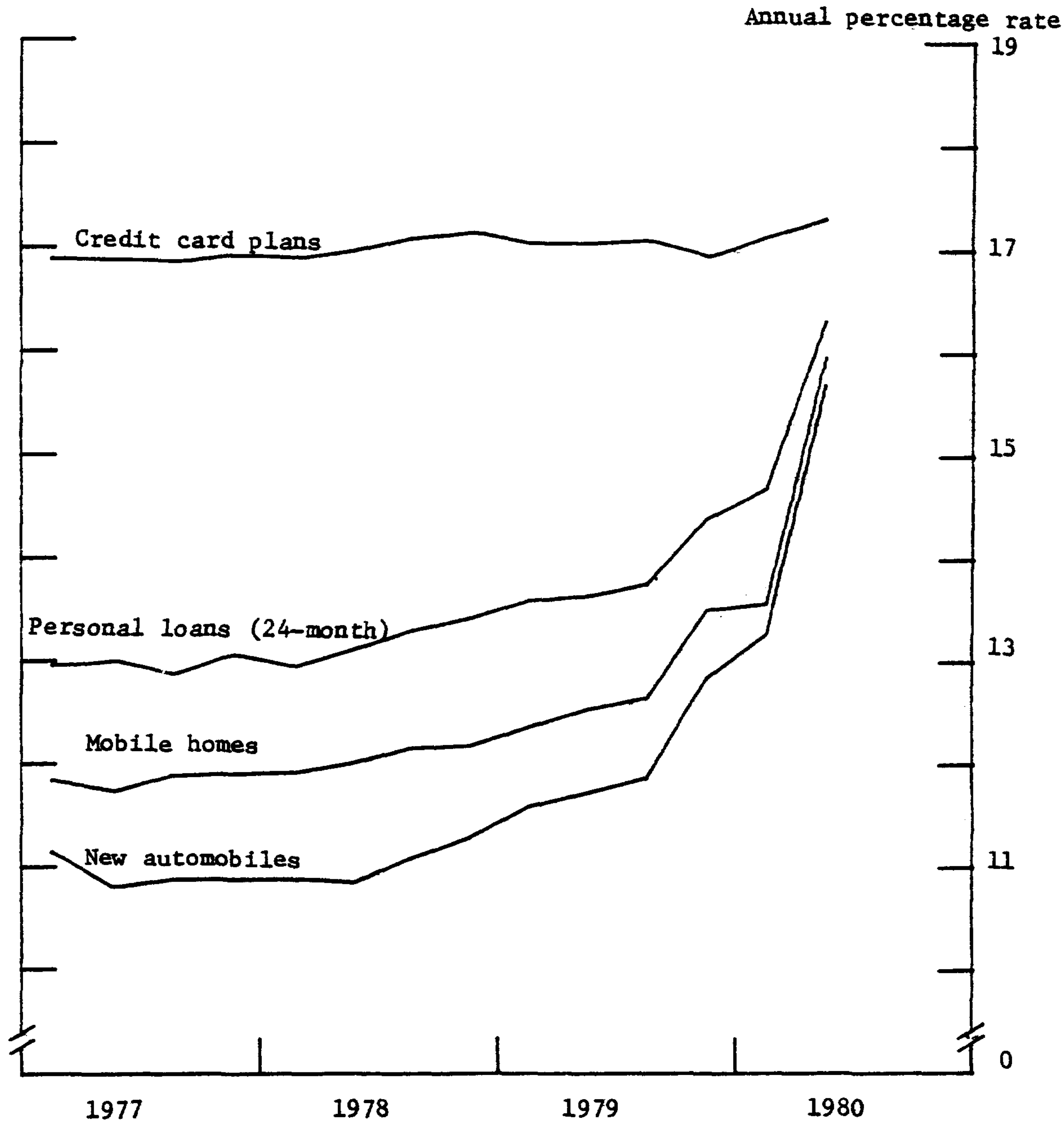
1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.
* Banks accounted for more than 100 percent of the drop in outstandings.

the same time, more stringent credit card lending policies predominated among the minority of banks and retailers reporting changes in policy.

The survey suggested that delinquency rates on consumer installment credit have risen recently. Commercial banks and finance companies both reported a higher proportion of delinquent automobile and personal loans, and credit card issuers reported an increasing number of delinquent accounts. Personal bankruptcy filings also have risen rapidly; during April, the number of cases filed reached a new high seasonally adjusted. However, part of the recent increase undoubtedly reflects the liberalization in the federal bankruptcy law that took effect October 1, 1979.

Finance rates for selected types of consumer installment credit at commercial banks were sharply higher in early May than in early February, according to the quarterly Federal Reserve series. (See chart on page III-20.) There are indications, however, that some institutions cut their rates after late April or early May. Two factors afforded banks some latitude to raise such rates. First, statutory rate ceilings on certain types of consumer loans have been boosted in at least 10 states since early February. Second, with the discount rate at 13 percent from mid-February through late May, national banks in states with legal rate ceilings below 14 percent could take advantage of the authority provided by the National Banking Act to charge 1 percent more than the Federal Reserve discount rate. Furthermore, as of March 31, this override was extended to all federally insured commercial banks, savings banks, credit unions, and savings and loan associations by the Depository Institutions Deregulation Act. Since late May, however, declines in the discount rate have reduced the usefulness of the override authority.

CONSUMER FINANCE RATES AT COMMERCIAL BANKS



Source: Quarterly Federal Reserve survey of "most common" finance rates.

APPENDIX A*

MONEY MARKET MUTUAL FUNDS

Money market mutual funds (MMMFs) have grown rapidly in recent weeks, with total assets currently about $14 billion above their level in mid-March (see table, upper panel). Total assets of MMMFs declined more than $1.0 billion over the four-week period following the March 14 announcement requiring MMMFs and similar creditors to maintain a special non-interest bearing deposit equal to 15 percent of the increase in their investment assets. This decline probably was in response both to uncertainty among investors about the impact of the special deposit requirement and to decisions by the trustees of most MMMFs to restrict or suspend sales of shares to new depositors. A large number of MMMF management companies responded to the Board's action by organizing new "clone" money market funds that are similar to the "first generation" MMMFs except that all of their non-exempt assets are subject to the special non-interest bearing deposit requirement.[1]

On March 28, the Board announced several changes in the regulation applying to money market funds and similar entities. Among other actions, the Board extended the exemption for bank-operated collective investment funds to bona fide personal trusts, pension, retirement, and other tax-exempt accounts invested in money market funds, exempted the tax-exempt assets of money market funds that allocate at least 80 percent of their assets to short-term tax-exempt obligations, and provided a minimum base ($100 million) for money market funds that were engaged in a continuous public offering on March 14. These Board actions, together with a wider availability of "clone" MMMFs, contributed to the beginning of a resurgence in the growth in money market funds in mid- to late-April. Sales of MMMFs also were buoyed in May by the decision of the trustees of several large funds whose covered credit totals were below their base levels to begin accepting deposits of new shareholders. More recently, on May 22 the Board announced modifications of its March 14 credit restraint program, including a reduction, effective in the week beginning June 16, from 15 to 7-1/2 percent in the special deposit requirement. Special deposits of money market funds and similar creditors totaled $488 million for the 7-day period ending June 22

1. On April 22, 1980, the SEC promulgated additional rules (Investment Company Act of 1940; Release No. 11137) designed to facilitate the creation and issuance of by MMMFs of more than one class of shares. Under these rules, a MMMF can create three classes of stock: one of which would be held primarily by existing shareholders, a second which would be held by exempt accounts, and a third to be offered to new shareholders.

* Prepared by Norman E. Mains, Economist, Capital Markets Section, Division of Research and Statistics.

(latest available data). Since assets of MMMFs were approximately $14 billion above the mid-March total in this period, the amount of the special deposits suggests that approximately one-half of the increase in MMMF assets since March 14 has been in accounts that are exempt from the Board's special deposit requirement. In fact, almost one-half of the gain in MMMF assets since mid-March has been at funds that limit their depositors to institutional investors.

In addition, the sharp decline in short-term interest rates has not had the unfavorable impact on MMMF sales that many had expected. One reason is that MMMF portfolio managers began lengthening the average maturity of their portfolios. MMMF assets had an average remaining maturity of less than 30 days in early April and by early May it had increased to 55 days. Since the yield curve became upward sloping during this period, this strategy enabled the MMMFs to limit the decline in portfolio yields. Perhaps even more important, a sizable number of MMMFs calculate their net yields to shareholders by "marking to market" all or a portion of the assets on a daily basis.[2] As a result, the sharp decline in money market interest rates resulted in annualized net yields to shareholders that were, because of the capital gains associated with the rise in prices of the money market obligations, well in excess of returns available on alternative investments. For example, the 7-day net yield to shareholders of first-generation MMMFs exceeded the effective yields available on MMCs by 3-1/2 percentage points, on average, in the first four weeks of May, although more recently the spread has narrowed to about 1-1/4 percentage points. MMMF portfolio managers also appear to have begun to reallocate their investable funds away from lower yielding U.S. Treasury securities and bankers acceptances and toward higher yielding domestic and Eurodollar CDs. They have remained large purchasers of commercial paper as well (see table, lower panel).

2. Approximately one-third of all MMMFs currently use a daily mark-to-market valuation method, while the remaining funds employ an amortized cost (or straight-line accrual) method for either all or a portion of their assets. The SEC limits MMMFs using an amortized cost method for all of their assets to an average maturity (weighted by assets) of no more than 60 days; MMMFs employing the combined scheme of both amoritized cost for assets with terms to maturity of 60 days or less and mark-to-market on all other assets are limited to or average maturity of no more than 120 days.

ASSETS AND NET YIELDS OF MONEY MARKET MUTUAL FUNDS

Period (weekly)	Change in assets: First generation	Change in assets: Clones	Average 7-day net yield to shareholders[1]	Memo: MMC effective yield at thrifts
	--Millions of dollars--		-------Percent--------	
Mar. 19	519	--	14.13	15.74
26	-158	--	14.59	15.73
Apr. 2	-699	25	15.04	16.55
9	-75	65	15.56	15.57
16	-472	71	16.03	14.95
23	204	139	16.32	14.21
30	98	203	16.03	12.42
May 7	2,075	254	15.52	11.24
14	1,955	229	13.61	9.86
21	2,144	258	12.72	9.33
28	1,275	361	11.99	9.33
June 4	1,614	304	10.73	8.28
11	1,392	186	10.63	8.98
18	1,180	281	9.79	8.01
25	1,053	196	9.19	8.01

1. First generation funds only.

End of Period	Total assets	Type of obligation: RPs & other	U.S. gov't.	CDs	Euro CDs	Comm. paper	BAs	Maturity (days)
	------------ Billions of dollars ----------							
1977	4.0	0.4	0.7	1.7	0.2	1.0	0.1	75
1978	11.0	0.5	1.4	4.8	0.5	2.9	0.8	48
1979	45.2	2.2	5.6	13.7	4.4	14.5	4.8	34
1980-Q1	60.5	3.5	10.6	14.0	6.3	19.5	6.6	29
April	60.7	2.9	9.3	13.9	5.4	20.6	8.6	38
May	70.0	4.5	10.9	15.6	6.4	24.3	8.3	46
June 25p	75.4	5.0	11.0	15.8	6.7	27.5	9.1	48

p -- preliminary.

Foreign exchange markets

Selling pressure on the dollar moderated somewhat during the seven week period since the last Greenbook, particularly since mid-June. As shown in the top panel of the first chart, the dollar's weighted-average value dropped until late May, after which it steadied somewhat and has since oscillated within a fairly narrow range. Between the last Greenbook and July 1 the dollar declined by a little more than 2 percent, and its weighted-average value is presently about 10-1/4 percent below the highs touched in early April.

Foreign exchange trading conditions over the last seven week period have been generally calm. The dollar's drift downwards has been a result mainly of the continuing fall in interest rates in the U.S. money market (see Chart 2) and on dollar instruments in the Euromarkets. Interest rates on dollar assets, in fact, have fallen well below the weighted-average of rates on assets in major foreign currencies, but late in the period under review dollar interest rates have firmed somewhat. The sharp rise in U.S. monetary aggregates announced toward the end of June, in particular, reinforced market views that dollar interest rates had passed through the trough.

In addition, economic data released since the last Greenbook have tended to confirm that a sharp U.S. recession is in progress, leading to expectations of a moderation of the inflation rate and of improvement in the current account deficit. Market perceptions of improvement in these fundamentals has at times provided support for the dollar -- evidenced for instance in the strength of the forward

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CHART 1

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR

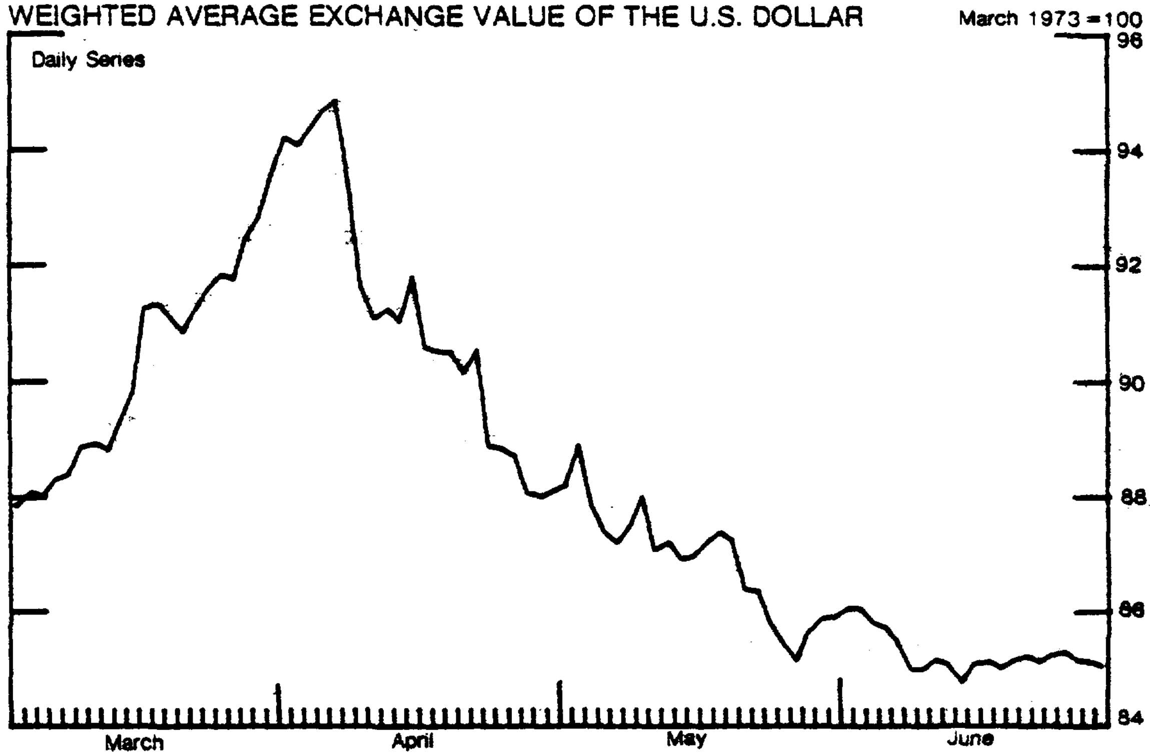
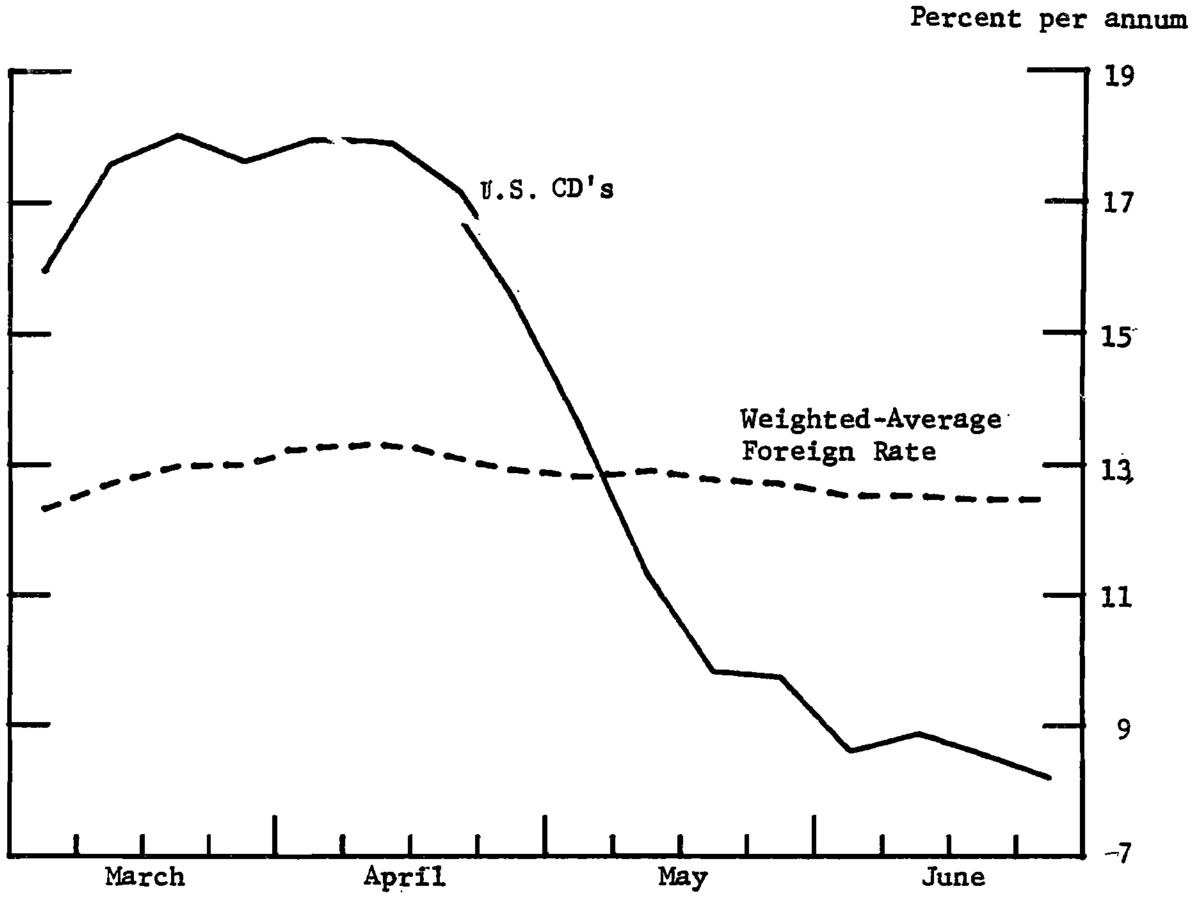


CHART 2
3-MONTH INTEREST RATES
Weekly Series



dollar -- even through the latter part of the period of falling interest rates. However, the unexpectedly large May U.S. trade deficit, announced in late June, led to a brief recurrence of selling pressure.

Against the principal foreign currencies, the dollar's largest decline since the last Greenbook was against the Japanese yen -- by 3-3/4 percent -- although by the end of June the yen had eased back somewhat on expectations of a softening in Japanese interest rates. The pound sterling and Swiss franc each gained more than 2-1/2 percent against the dollar during the period, with sterling benefitting especially from high U.K. interest rates and, to some extent, the new round of oil price increases which occurred in late May and early June. Within the EMS arrangement, the French franc has held firmly at the top of the narrow currency spread for the past several weeks, rising not only against the dollar (by 2-1/2 percent), but also relative to the German mark. The mark gained almost 1-3/4 percent against the dollar since the last Greenbook, but its appeal has been somewhat diminished by expectations of a large German current account deficit this year.

Market attention has shifted toward the Italian lira recently. Within the European Monetary System, the lira came under intensifying downward pressure during most of June. The lira rose by only 1/4 percent against the dollar, and it sank slowly within the EMS arrangement . By the end of the period the lira was more than 4 percent below its central rate with the French franc (the lira is permitted a 6 percent margin of fluctuation). The major factors behind the lira's weakness are

Italy's very high inflation rate and worsening current account position. Late in the month the Bank of Italy tightened penalties on banks which exceed their credit ceilings, and on July 2 the government decided on selective restrictive measures.

For its part, the Desk provided net intervention support for the dollar totalling $1,260 million during the past seven weeks, of which the System's share came to $684.5 million, and the remainder was financed by the Treasury. During the first two weeks of June, Desk operations included sales of $115 million equivalent of Swiss francs and $26.3 million of French francs, the former financed from System balances and the latter by drawing on the System's swap line with the Bank of France. Most of the German mark sales for System account since the last Greenbook were financed by drawing on the Bundesbank swap line, and System swap indebtedness to the Bundesbank now stands at $877 million equivalent. Swap debt to the Bank of France, stemming from the April and June operations, is presently $100 million equivalent.

U.S. International Transactions.

The U.S. merchandise trade deficit in April and May averaged $28 billion at an annual rate (international accounts basis), a sharp reduction in the deficit from the first quarter. The bulk of the improvement consisted of a reduction in non-petroleum imports. A particularly sharp downturn was recorded in imports of industrial supplies which is typical of the sensitivity of such imports in the early stages of a cyclical downturn. Automotive imports from Europe and Japan in April/May continued at the same rate as in the first quarter; automotive imports from Canada were off sharply.

The volume of oil imports has varied widely from month to month in 1980 but the seasonally adjusted average for April/May of 7.3 mbd was substantially below the first quarter level. Oil imports have declined steadily from their recent peak of 9-1/4 mbd in the first quarter of

U.S. Merchandise Trade*
(billions of dollars, seasonally adjusted annual rates)

	Exports			Imports			Trade
	Total	Agric.	Nonagric.	Total	Oil	Nonoil	Balance
1978	142.1	29.9	112.2	175.8	42.3	133.5	-33.8
1979	182.1	35.4	146.6	211.5	60.0	151.5	-29.5
1979 - 1	167.2	30.6	136.6	187.7	46.4	141.3	-20.5
2	171.3	31.8	139.5	203.5	53.9	149.6	-32.3
3	188.8	37.5	151.3	217.0	64.4	152.7	-28.2
4	200.9	41.7	159.2	237.8	75.4	162.4	-36.9
1980 - 1	218.8	41.5	177.3	262.3	86.4	175.9	-43.5
Apr/May p	217.9	39.1	178.8	246.0	82.7	163.2	-28.1

1979. The downturn in U.S. economic activity, as well as an apparent leveling off of stock building, could generate some further reductions in coming months. The decline in volume in April/May was about offset by a 10 per cent increase in the price of imported oil from the first quarter average. Import prices will increase further in coming months as the OPEC price hikes in mid-May and June of about 8 per cent are fully reflected in U.S. import data.

Nonagricultural exports in April/May increased slightly following strong growth in 1979 and the first quarter of 1980. Increases in civilian aircraft, machinery, and industrial supplies (particularly coal and chemicals) were partly offset by declines in automotive exports (to Canada and other countries) and consumer goods. Exports of aircraft continued to rise in both April and May averaging a $14 billion annual rate as compared to a $12 billion annual rate in the first quarter and

Oil Imports*
(seasonally adjusted)

	Volume (mil. bar./day)	Price $/BBL	Value (Bil. $, AR)
1980 - 1	8.47	28.06	86.4
April-May	7.34	30.86	82.7
March	7.93	29.73	88.4
April	6.45	30.59	72.0
May	8.23	31.13	93.5

*/ International accounts basis (includes imports the U.S. Virgin Islands).

a $10 billion annual rate in 1979. Moreover, strong orders over the past year and a surge in new orders for aircraft exports in recent months would imply continued strength for this category of exports. Coal exports have been particularly strong as demand for steam coal to fuel electric generating stations and industries in Europe and Japan increased sharply. The downturn in auto exports and exports of consumer goods may have been related to a leveling off of foreign economic activity in the second quarter.

Agricultural exports averaged $39.1 billion at an annual rate on an international accounts basis in April/May, down from $41.5 billion in the first quarter. A drop in grain export volumes and unit values accounted for the most of the decline.

In international financial transactions, an outflow of funds through banks that has been under way since spring continues to characterize developments in banking markets. As shown in the accompanying table, banking offices in the United States reduced their net Eurodollar borrowing by $10 billion and increased their claims on foreign banks by $1 billion, on a daily average basis, between March and May; partial data for June indicate further outflows[1/]. The bulk of the outflow was through domestic chartered banks as these institutions became net lenders to their branches for the first time since April 1979.

U.S. banking offices' net supply of funds to foreigners seems primarily related to the slowdown in bank-credit demands in the United States during the second quarter. At the same time foreign credit demands have apparently remained relatively strong, both in foreign industrialized countries and LDCs seeking to finance enlarged current-

1/ These data differ from those in the "U.S. International Transactions" table in that they are daily averages of outstandings, rather than differences of month-end outstandings.

account deficits. Funds raised by banks in the United States in excess of bank-credit demands here have apparently been channeled to ultimate borrowers abroad through placements at U.S. banking offices' foreign affiliates and at other foreign banks.

Foreign official assets in the United States fell by $1.4 billion in April,

. OPEC holdings increased, although at a slower rate than in recent months. Partial data for May and June indicate an increase in foreign official assets in this country.

Data for the first quarter of 1980 showed another large inflow in unrecorded transactions probably representing net private capital inflows. This trend over the fourth quarter of 1979 and the first quarter of 1980 appears to have continued in April. Among other current account developments in the first quarter, U.S. service receipts again rose as direct investment receipts advanced from their high fourth quarter rate. The increase was in part due to strong petroleum company profits.

Net Eurodollar Borrowing by Commercial Banks in the United States
(billions of dollars, daily averages)

	1979		1980	1979			1980					
	Q-3	Q-4	Q-1	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June 1/
Total net Eurodollar borrowing	32.4	32.4	30.1	34.4	34.6	28.1	27.9	29.4	32.9	26.9	23.1	14.5
- Domestic-chartered banks' net position with own foreign offices	8.1	9.0	7.3	9.1	11.4	6.5	5.9	6.6	9.3	6.0	2.7	-4.4
- Foreign-related banks' net position with directly related institutions	24.3	23.4	22.8	25.3	23.2	21.7	22.0	22.8	23.6	20.9	20.4	18.9

Loans to Foreign Banks at Commercial Banks in the United States
(n.s.a., billions of dollars, daily averages)

	Q-3	Q-4	Q-1	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June 1/
Total loans to foreign banks	22.0	20.6	19.1	22.6	19.1	20.1	19.6	18.6	19.2	19.8	20.1	20.0
- at domestic-chartered banks	7.3	7.6	7.2	7.8	7.5	7.5	7.2	7.2	7.1	7.2	7.4	6.8
- at foreign-related institutions	11.7	13.0	11.9	14.8	11.6	12.6	12.4	11.4	12.0	12.7	12.7 e	13.3

1/ Daily averages through June 18, except loans to foreign banks, which are estimates of daily averages for all of June.

RESTRICTED

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

July 2, 1980

		1978 Year	1979 Year	1979 Q2	1979 Q3	1979 Q4	1980 Q1	1980 Feb.	1980 Mar.	1980 Apr.
1.	Trade balance 1/	-33,759	-29,469	-8,070	-7,060	-9,225	-10,875	-4,586	-2,294	-1,231
2.	Merchandise exports	142,054	182,055	42,815	47,198	50,237	54,708	17,653	19,016	18,465
3.	Merchandise imports	-175,813	-211,524	-50,885	-54,258	59,462	-65,583	-22,239	-21,310	-19,696
4.	Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-15,219	15,104	4,909	745	-5,334	8,151	5,979	-5,905	-6,879
	Through interbank transactions with									
5.	a) Own offices in foreign countries	4,775	21,305	6,754	8,303	-9,110	6,078	6,212	-4,626	-4,519
6.	b) Unaffiliated banking offices in foreign countries	-4,607	3,694	-1,169	-2,344	6,373	2,571	-1,153	-351	-1,231
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase,-)	-16,463	-12,182	-2,036	-5,309	-3,830	26	13	-539	-529
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,076	2,287	1,360	95	1,234	-524	907	-389	-601
9.	Private securities transactions, net (excl. U.S. Treas. Oblig.)	-783	-3,350	27	-1,951	-907	1,611	730	321	263
10.	Foreign net purchases of U.S. corp. bonds	1,056	268	265	6	20	406	147	63	166
11.	Foreign net purchases of U.S. corp. stocks	1,686	1,031	275	143	190	1,992	1,080	243	149
12.	U.S. net purchases (-) of foreign securities	-3,525	-4,649	-513	-2,100	-1,117	-787	-497	15	-52
13.	Foreign net purchases of U.S. Treasury obligations 2/	2,271	3,712	-119	1,466	921	3,278	769	380	-752
14.	Change in foreign official reserve assets in U.S. (increase +)	31,400	-13,013	-10,211	5,580	-299	-7,721	-972	-3,226	-1,413
	By Area									
15.	G-10 countries and Switzerland	30,732	-21,087	-11,628	4,819	-7,182	-10,223	-1,754	-7,041	-6,660
16.	OPEC	-1,175	6,523	338	1,624	6,031	3,094	1,301	2,662	844
17.	All other countries	1,843	1,551	1,079	-863	852	-592	-519	1,153	4,403
	By Type									
18.	U.S. Treasury securities	23,849	-20,559	-12,853	5,030	-5,769	-5,500	-944	-6,282	-2,588
19.	Other 3/	7,551	7,546	2,642	550	5,470	-2,221	-28	3,056	1,175
20.	Change in U.S. reserve assets (increase -)	662	-278	412	2,712	-394	-2,520 4/	122	-608	-73
21.	All other transactions and statistical discrepancy	15,428	27,294	13,052	-1,492	15,238	8,076	-2,042	11,332	10,085
MEMO:	Current Account (bil. $ seasonally adj. annual rates)	-14.3	-.8	-5.9	-4.4	-7.2	-10.3	n.a.	n.a.	n.a.

1/ International accounts basis, seasonally adjusted.
2/ Includes U.S. Treasury notes publicly issued to private foreign residents.
3/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchases agreements.
4/ Includes newly allocated SDR's of $1,150 million in January 1980.

Foreign Economic Developments. Economic activity in several major industrial countries has weakened in recent months. Real GNP in the United Kingdom and Canada declined in the first quarter, while first-quarter French industrial production figures suggest that the pace of activity has slowed there as well. In Germany, where first-quarter growth was quite strong, there are also signs that the economy may have been slowing somewhat in recent months. The main exception to this trend is Japan, where the economy has continued to expand strongly. Japanese GNP grew at a greater than 7 percent annual rate in the first quarter, and economic activity does not appear to have slowed significantly since then.

The general tendency toward weaker activity has not yet been accompanied by any marked trend toward reduced rates of inflation in most countries, but there have been some hopeful signs. In Japan, wholesale prices fell in May for the first time in more than a year and a half largely because of appreciation of the yen, and in June the CPI sustained its smallest increase since 1978. The rate of increase in consumer prices in Italy has decelerated significantly in recent months, and the rate of inflation in both wholesale and retail prices declined sharply in the United Kingdom in May from high April rates produced partly by tax increases. Some moderation in upward pressure on prices has also been evident in Germany, Belgium, and France. Strong inflationary pressures persist, however, in Canada, the Netherlands, and the Scandinavian countries.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted)

				1979				1980	1979	1980				
	1977	1978	1979	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.	Apr.	May
Canada: GNP	2.4	3.4	2.6	0.8	-0.2	1.1	0.5	-0.5	*	*	*	*	*	*
IP	4.0	5.3	4.7	1.4	-1.2	2.3	-1.0	-0.8	-2.3	0.4	0.1	1.3	n.a.	n.a.
France: GDP	3.0	3.5	4.0	0.3	0.4	2.7	0.4	0.4	*	*	*	*	*	*
IP	2.0	1.9	3.8	-0.3	0.8	4.8	-2.9	1.5	0.7	0.0	0.7	0.0	0.0	n.a.
Germany: GNP	2.6	3.5	4.4	0.6	2.1	0.9	0.6	1.8	*	*	*	*	*	*
IP	2.6	2.3	5.4	0.0	3.1	1.6	0.5	1.6	-0.8	0.8	1.6	0.0	-1.6	n.a.
Italy: GDP	1.9	2.6	5.0	1.4	-0.8	1.1	3.9	1.5	*	*	*	*	*	*
IP	1.1	1.9	6.4	1.1	-2.6	1.4	8.4	3.1	-1.5	1.4	4.3	-0.6	1.8	n.a.
Japan: GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.1	1.8	*	*	*	*	*	*
IP	4.2	6.2	8.3	1.8	2.4	2.0	2.6	4.1	-0.2	1.2	5.7	-3.5	1.8	-0.5
United Kingdom: GDP	1.7	2.7	1.9	-0.4	3.1	-2.1	0.5	-0.7	*	*	*	*	*	*
IP	3.7	3.7	2.6	-0.2	4.3	-1.8	-0.1	-2.2	-1.8	-0.5	-1.2	-1.2	-0.6	n.a.
United States: GNP	5.3	4.4	2.3	0.3	-0.6	0.8	0.5	0.3	*	*	*	*	*	*
IP	5.9	5.8	4.1	1.0	-0.2	0.2	-0.1	0.0	0.1	0.3	-0.2	-0.5	-2.0	-2.1

* GNP data are not published on monthly basis.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from preceding period)

	1979				1980	1980					MEMO: Latest 3 Months from Year Ago
	Q1	Q2	Q3	Q4	Q1	Feb.	Mar.	Apr.	May	June	
Canada: CPI	2.3	2.6	2.0	2.3	2.2	0.8	1.1	0.6	1.2	n.a.	9.3
WPI	4.9	3.1	2.7	3.6	4.9	0.8	-0.5	0.5	n.a.	n.a.	13.9
France: CPI	2.2	2.8	3.2	2.8	3.8	1.1	1.2	1.1	0.9	n.a.	13.7
WPI	4.4	3.8	2.8	1.9	3.1	1.3	0.4	0.3	n.a.	n.a.	10.9
Germany: CPI	1.8	1.4	1.2	0.9	1.9	1.1	0.6	0.5	0.5	0.5	5.9
WPI	3.4	3.3	1.7	1.1	3.9	1.2	0.5	0.3	0.8	n.a.	8.9
Italy: CPI	3.9	3.7	3.5	5.6	6.4	1.7	0.9	1.6	0.9	n.a.	20.5
WPI	4.4	4.6	4.3	5.6	6.6	1.8	1.1	1.3	n.a.	n.a.	22.5
Japan: CPI	-0.2	2.2	0.9	1.9	2.0	0.5	0.7	1.8	0.7	0.2	7.9
WPI	1.9	4.1	4.9	4.3	6.4	2.6	2.0	2.7	-0.2	n.a.	22.9
United Kingdom: CPI	3.1	3.7	6.7	2.8	4.7	1.4	1.4	3.4	0.9	n.a.	21.1
WPI	2.7	4.0	5.0	3.0	5.3	1.6	1.5	1.3	1.2	n.a.	19.0
United States: CPI	2.5	3.4	3.3	2.9	3.9	1.4	1.4	1.1	1.0	n.a.	14.6
WPI	3.3	2.5	2.6	3.7	4.0	1.3	1.2	0.8	0.4	n.a.	13.6

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES[a]
(Billions of U.S. dollars; seasonally adjusted)

	1978	1979	1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Q4	1980 Q1	1980 Mar.	1980 Apr.	1980 May
Canada: Trade	3.1	3.4	0.7	0.6	0.6	0.9	1.3	1.5	0.6	0.0	n.a.
Current Account	-4.6	-4.2	-1.5	-1.2	-1.3	-0.9	-0.8	-0.6	*	*	*
France: Trade[b]	0.7	-2.4	0.1	0.4	-0.4	-1.4	-1.3	-3.5	-1.4	-0.5	-1.7
Current Account[b]	3.7	1.2	1.3	0.5	0.7	0.1	-0.1	-2.5	*	*	*
Germany: Trade	20.6	12.1	5.8	4.4	4.0	2.4	1.4	1.9	0.7	1.8	n.a.
Current Account[c]	8.9	-5.8	4.8	1.4	-1.1	-4.2	-1.1	-2.8	-0.7	-1.0	n.a.
Italy: Trade	-0.5	-5.3	0.1	-0.1	-0.4	-1.5	-3.3	-4.1	-1.1	-1.2	n.a.
Current Account[c]	6.4	5.2	1.7	1.1	2.1	3.9	-1.8	n.a.	*	*	*
Japan: Trade	24.6	2.0	4.2	2.5	1.9	-1.0	-1.4	-1.9	-1.2	-0.7	0.1
Current Account	16.5	-8.7	1.7	0.1	-0.7	-3.9	-4.2	-5.2	-2.4	-1.8	-1.0
United Kingdom: Trade	-2.9	-6.9	-0.4	-3.2	-1.0	-1.1	-1.6	-1.6	-0.4	-0.6	0.0
Current Account	1.8	-4.8	1.1	-2.4	-0.6	-0.2	-1.5	-0.9	-0.3	-0.5	n.a.
United States: Trade	-33.8	-28.4	-6.8	-5.1	-8.1	-7.1	-9.2	-10.9	-2.3	-1.7	n.a.
Current Account	-14.3	-0.8	-0.8	1.4	-1.5	1.1	-1.8	-2.6.	*	*	*

a The current account includes goods, services, and private and official transfers.
b French annual data are not seasonally adjusted.
c Not seasonally adjusted.
* Comparable monthly current account data are not published.

In general, the major industrial countries are still experiencing large trade and current-account deficits, although in some cases the deficits have narrowed somewhat in recent months. The Japanese current-account deficit averaged more than $1-1/2 billion in the first five months of the year, but was less than $1 billion in May. The U.K. current-account moved into small surplus in May. In Germany however, another large deficit ($1 billion in April) brought the four-month cumulative deficit to more than $4 billion, compared to a $2 billion surplus in the corresponding period a year earlier.

Since the previous greenbook, three-month interest rates have declined somewhat in the major industrial countries, with the exception of Italy and the United Kingdom, but in the latter case short-term rates are below levels reached earlier in the year.

Individual Country Notes. Recently released GNP statistics show that the Japanese economy continued to expand strongly in the first quarter. Led by real exports and private fixed capital formation, GNP increased at a 7.2 percent annual rate to bring real growth in FY 1979 to 6.1 percent, slightly above the official fiscal-year target. This strength appears to have continued in the second quarter. In the three months ending in May, industrial production increased at a 6-1/2 percent annual rate, and recent assessments by both the Japanese EPA and Bank of Japan conclude that activity has remained strong. Although the recent appreciation of the yen may exercise some limiting effect on the further expansion of exports, surveys of investment intentions indicate that private fixed capital formation is expected to continue to be an import- and source of strength for at least the rest of this year. Accordingly, some private forecasters now foresee little or no slowdown in real growth during 1980.

Although the inflation situation in Japan is still a serious concern, there have been some favorable developments recently. The wholesale price index fell in May by 0.2 percent, following increases that averaged 2.4 percent for the first four months of the year. Lower dollar prices for some imported commodities, together with the effects of appreciation of the yen during May, contributed to the decline. The CPI increased by only 0.2 percent in June, after registering month-to-month increases that averaged 1.0 percent between January and May. Prospects for controlling inflation have been improved considerably by the recent wage settlements in the moderate range of 6-1/2 - 7 percent, as well as by continuing advances in productivity.

Monetary conditions in Japan still remain tight. Short-term market rates declined by 50-100 basis points in June, but the discount rate remains at 9 percent, and newly announced lending limits for the third quarter will allow large city banks to expand credit to a level less than 6 percent above that of the corresponding period last year.

The current-account deficit contracted by over $800 million in May to a deficit of $960 million, largely on the basis of a strong surge in exports, which expanded by almost 8 percent.

Real GNP in Germany expanded at almost a 7 percent annual rate in the first quarter of this year. While part of this strength is attributable to extra workdays, for which the above figure is not adjusted, other first-quarter data on economic activity, such as industrial production, sales and orders, confirm the impression that activity was strong. Among the sources of strength were consumption and, particularly, exports of goods and services.

There have been some signs recently that activity may be slowing. Industrial production in April fell by 1.6 percent, after having risen steadily in the first quarter, while the volume of orders in April dropped sharply, especially in the consumer and investment goods sector. The drop in the overall orders volume index of 4.6 percent in April was the largest such monthly drop since December 1974. Retail sales, which had been weakening since January, fell a further one percent in real terms in April. The rate of unemployment rose slightly to 3.7 percent (s.a.) in May.

The rate of consumer price inflation was 0.5 p rcent in June, about the same as in April and May; the annualized rate for the first six months of this year is 7.5 percent. Wholesale and producers' prices have risen much faster, however.

The German current-account deficit has continued to accumulate at a $12 billion annual rate. After a $1 billion deficit in April, the current-account deficit for the first four months of this year was $4.1 billion, compared with a surplus of $2.0 billion for the same period of last year. Despite the declining current-account balance, real net exports have risen very strongly so far this year. The German current-account deficit is largely the result of higher import prices — especially the price of imported energy.

In the United Kingdom the output-based measure of real GNP fell by 0.7 percent (s.a.) in the first quarter of 1980. Part of this decline reflected a strike in the nationalized sector of the steel industry during the quarter. Data since the end of the strike indicate, however, that the United Kingdom is currently in a recession: in April industrial production continued to decline, falling 0.6 percent; the volume of retail sales fell by 0.3 percent (s.a.) in the same month; the unemployment rate continued to increase, rising to 6.3 percent in June; and new construction orders fell 1.0 percent in the three months to April from the previous three months.

The rate of retail price inflation fell dramatically from 3.4 percent (n.s.a.) in April (which was extraordinarily high due primarily to higher taxes associated with the March Budget and other government taxes and fees) to 0.9 percent in May. The rate of increase in the wholesale price index also declined somewhat, from 1.3 percent (n.s.a.) in April to 1.2 percent in May.

The U.K. trade deficit (s.a.) declined sharply to $40 million in May from nearly $600 million in April. With the surplus on services running unchanged at about $110 million, the current account swung into surplus for the first time this year. The smaller trade deficit reflected a 2.4 percent rise in export volume, a 4.9 percent fall in import volume, and roughly unchanged unit values.

Real GNP in Canada fell 2.0 percent (s.a.a.r.) in the first quarter. Marked inventory adjustments coupled with declining export volumes and a sharp fall in residential construction were major contributory factors to the negative first quarter GNP growth.

The rate of consumer price inflation accelerated in May to 1.2 percent after slowing to 0.6 percent in April. The average month-to-month increase in the first five months of the year was about 0.9

percent. Prices increased most rapidly for non-food items, but prices accelerated across every category of the index.

In the first quarter of 1980, the Canadian current-account deficit (s.a.) was $584 million, compared with $761 million in the fourth quarter 1979. A principal element in this lower deficit was a 10 percent rise in the merchandise trade surplus in the first quarter to $1.5 billion as the rate of growth in the value of exports at 4.0 percent was one percentage point above that for imports. Growth in the value of trade was attributable entirely to price increases, however, as the volume of exports and imports both declined. Reduction in automobile and timber exports to the U.S. were major factors in the decrease in export volume.

French real GDP (s.a.) in the first quarter of 1980 continued to grow at a 1.6 percent annual rate. Recent industrial production figures and survey data indicate that relatively slow growth persisted in the second quarter as well; in the three months ending in April, industrial production was virtually flat. Since January, the unemployment rate has increased by 0.1 percentage point each month to a level of 6.5 percent in May.

Consumer and wholesale prices in France have continued their strong upward trend. Following large increases early in the year, consumer prices have continued to rise at month-to-month rates in the 12-15 percent range at an annual rate.

The current-account deficit for the first quarter was $2.5 billion, which may be compared with the $1.2 billion surplus for all of 1979.

In Italy, first quarter GDP (s.a.) grew by 1.5 percent, following a 3.9 percent increase in the fourth quarter of 1979. Industrial production grew at the healthy pace of 1.8 percent in April yielding a cumulative increase of about 12-1/2 percent over its year-earlier level. In March, capacity utilization reached its highest level since mid-1974.

The rate of increase in consumer prices decelerated in May to 0.9 percent, following a 1.6 percent increase in April. The average annualized rate of inflation in the CPI for the first five months is about 20 percent.

Italy's trade deficit through April was $5.3 billion (customs basis, imports c.i.f.), up from a deficit of $3.7 billion in the previous four months and a marked decline from a surplus of $0.3 billion in the first four months of 1979. Rising import volumes due to buoyant domestic demand, as well as higher oil prices, are partially responsible for the larger deficit. There are also indications that exports are weakening, possibly reflecting a loss of competitiveness as a result of Italy's high rate of inflation relative to its trading partners.

Inflation in the Netherlands accelerated in the three months ending in May to a 10.6 percent annual rate. The unemployment rate rose from 5.1 percent in April to 5.4 percent in May, suggesting the possible beginning of a slowdown in real activity. In view of the continued strength of the guilder within the EMS and the recent decline of domestic money-market interest rates, the Netherlands Bank lowered its discount rate from 10 percent to 9.5 percent on June 23.

In Belgium inflation continues to be rapid but has decreased somewhat from the very high rates of January and February. In the three months ending in May, the consumer price index rose at an average annual rate of 5.7 percent over the previous three months. In response to lower short-term interest rates in the domestic money market and abroad and to preliminary indications of an expected slowdown in activity, the Belgian National Bank announced on June 25 a lowering of its entire structure of discount rates by 1 to 1-1/2 percentage points.

In Switzerland preliminary data indicate that real economic activity remains very strong. Unemployment at the end of May was at its lowest level since April 1975 and constituted only 0.2 percent of the labor force; at the end of May fewer than 6 thousand Swiss were unemployed. The consumer price index in April and May was 4.2 percent above its year-earlier level, which is approximately the rate of increase for the first quarter of 1980 as well.

In the Scandinavian countries there is little evidence to suggest an abatement of inflation. In Sweden and Norway, consumer prices in the three months ending in May rose at average annual rates of 13.4 and 15.8 percent, respectively, while the corresponding figure for Danish prices in the three-month period ending in April was 12 percent. In all three countries, recent movements in wholesale prices do not suggest any forthcoming let-up in these rates.