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Confidential (FR) Class II FOMC

September 10, 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	Aug.	9-5-80	105.0	-2.0	-.4	1.8
Unemployment rate (%) 1/	Aug.	9-5-80	7.6	7.8	7.8	5.9
Insured unemployment rate (%) 1/	Aug.	9-5-80	4.4	4.5	4.3	3.0
Nonfarm employment, payroll (mil.)	Aug.	9-5-80	90.1	2.7	-1.8	-.2
Manufacturing	Aug.	9-5-80	19.9	5.5	-7.6	-5.5
Nonmanufacturing	Aug.	9-5-80	70.2	1.9	-.1	1.4
Private nonfarm:						
Average weekly hours (hr.) 1/	Aug.	9-5-80	35.1	34.9	35.1	35.7
Hourly earnings ($) 1/	Aug.	9-5-80	6.70	6.66	6.57	6.22
Manufacturing:						
Average weekly hours (hr.) 1/	Aug.	9-5-80	39.6	39.1	39.3	40.1
Unit labor cost (1967=100)	July	8-29-80	200.9	16.3	21.6	14.8
Industrial production (1967=100)	July	8-15-80	138.8	-18.7	-25.4	-9.2
Consumer goods	July	8-15-80	139.4	-13.6	-14.9	-7.6
Business equipment	July	8-15-80	166.2	-17.1	-18.8	-3.0
Defense & space equipment	July	8-15-80	95.8	-3.7	-3.3	3.2
Materials	July	8-15-80	137.0	-24.9	-37.3	-13.1
Consumer prices all items (1967=100)	July	8-22-80	247.1	.0	7.4	13.1
All items, excluding food & energy	July	8-22-80	233.1	-2.1	7.7	12.4
Food	July	8-22-80	252.9	11.5	7.2	7.5
Producer prices: (1967=100)						
Finished goods	Aug.	9-5-80	250.2	18.5	16.3	14.6
Intermediate materials, nonfood	Aug.	9-5-80	282.9	6.4	8.2	14.0
Crude foodstuffs & feedstuffs	Aug.	9-5-80	282.4	8.4	80.5	13.5
Personal income ($ bil.) 2/	July	8-18-80	2117.6	16.4	8.9	9.5
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	July	9-2-80	73.3	10.3	1.2	-1.8
Capital goods industries	July	9-2-80	25.3	7.6	-6.8	7.3
Nondefense	July	9-2-80	20.8	4.4	-6.0	-1.9
Defense	July	9-2-80	4.5	25.5	-10.0	90.9
Inventories to sales ratio: 1/						
Manufacturing and trade, total	June	9-8-80	1.52	1.53	1.44	1.44
Manufacturing	July	9-2-80	1.68	1.72	1.69	1.52
Trade	June	9-8-80	1.34	1.34	1.29	1.33
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	July	9-2-80	.593	.593	.581	.555
Retail sales, total ($ bil.)	July	8-11-80	77.1	2.0	2.8	5.5
GAF 3/	July	8-11-80	16.9	1.9	3.3	3.7
Auto sales, total (mil. units.) 2/	Aug.	9-5-80	8.6	-5.3	17.7	-22.3
Domestic models	Aug.	9-5-80	6.4	.1	23.9	-27.5
Foreign models	Aug.	9-5-80	2.1	-18.8	2.1	-.8
Plant & Equipment expen. ($ bil.) 4/						
All Industries	1980	9-10-80	192.51	--	--	8.7
	1980-Q2	9-10-80	193.89	1.3	--	11.8
	1980-Q3	9-10-80	191.24	-1.4	--	6.6
	1980-Q4	9-10-80	193.17	1.0	--	3.3
Capital Appropriations, Mfg.	1980-Q2	8-29-80	25,050	-12.8	--	26.0
Housing starts, private (thous.) 2/	July	8-18-80	1,266	4.8	22.9	-28.2
Leading indicators (1967=100)	July	8-29-80	130.7	4.6	3.6	-7.4

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

The decline in economic activity has moderated recently, after an extremely sharp contraction during the second quarter. Improvement has been evident in the housing sector, and the sharp decline in consumer spending, which began last spring, appears to have bottomed out--led by a pick-up in auto sales. Payroll employment rose in August and industrial production apparently increased, following six months of decline. However, substantial weakness still exists in business investment spending, and inflationary pressures remain strong.

Employment and Production

Recent employment data indicate that the sharp deterioration in labor demand has been checked, at least temporarily. Employment as measured by the household survey was unchanged in August, but the number of unemployed fell 200,000. As a result, the jobless rate edged down to 7.6 percent. After rising rapidly this past spring, the unemployment rate has remained in a 7-1/2 to 7-3/4 percent range over the last four months.

Employment as measured by the establishment survey rose 200,000 in August, following five months of decline, but nonfarm payrolls still are more than 1 million below the high recorded in February. Almost half of the August increase in jobs occurred in the manufacturing sector, mainly among producers of nondurable goods. Within the hard goods sector, employment advances in the lumber and metals industries were partly offset by a further decline at manufacturers of electrical equipment. Increases in factory hours of work were widespread in August, as a lengthening of overtime schedules contributed to a substantial rise of

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

	1978	1979	1980 Q1	1980 Q2	1980 July	1980 Aug.
	- - - - - - Average monthly changes - - - - - -					
Nonfarm payroll employment[2]	357	176	155	-366	-182	201
Strike adjusted	341	182	158	-390	-49	152
Manufacturing	74	1	-15	-308	-202	91
Durable	62	4	0	-253	-140	22
Nondurable	12	-3	-15	-55	-62	69
Construction	31	20	-29	-50	-60	36
Trade, finance and services	182	113	144	-15	140	98
Private nonfarm production workers	264	112	55	-387	-109	224
Manufacturing production workers	54	-11	-35	-306	-174	89
Total employment[3]	270	173	-85	-373	459	10
Nonagricultural	264	175	-85	-317	393	87

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Data for 1980 are revised to reflect benchmark levels for March 1979; revisions for prior years have not yet been received. Data are not strike adjusted, except where noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1978	1979	1980 Q1	1980 Q2	1980 July	1980 Aug.
Total, 16 years and older	6.0	5.8	6.1	7.5	7.8	7.6
Teenagers	16.3	16.1	16.2	18.0	19.0	19.1
20-24 years old	9.5	9.0	9.8	12.2	12.3	11.9
Men, 25 years and older	3.3	3.3	3.7	5.2	5.6	5.4
Women, 25 years and older	5.1	4.8	4.9	5.6	5.7	5.7
White,	5.2	5.1	5.4	6.6	6.9	6.8
Black and other	11.9	11.3	11.7	13.4	14.2	13.6
Fulltime workers	5.5	5.3	5.7	7.2	7.6	7.4
White collar	3.5	3.3	3.4	3.8	3.7	3.7
Blue collar	6.9	6.9	7.9	10.9	11.5	11.4

one-half hour in the average workweek. Outside of manufacturing, employment in the trade and service sectors, which had dipped earlier in the summer, resumed its upward trend, and construction employment, after adjustment for returning strikers, was little changed.

In conjunction with the increases in manufacturing work schedules and employment, a moderate rise in industrial production apparently occurred in August, following a 1.6 percent decline in July and a 9 percent cumulative drop during the preceding six-month period. The August increases appear to have been widespread across most manufacturing industries except motor vehicles, as both auto and truck production were cut. In the materials sector, raw steel production rose slightly in August, after falling 40 percent during the preceding 12 months. Capacity utilization at manufacturers also appears to have edged up in August, after falling in July to a 74.2 percent rate--nearly 13 percentage points below its cyclical peak in March 1979.

Personal Income and Consumer Spending

Wage and salary disbursements edged down slightly in July after changing little on balance during the second quarter. However, the annual cost-of living adjustment for social security benefits boosted total personal income. In real terms, it is estimated that disposable income rose in July for the first time since January but, even so, was more than 1 percent below the January peak. Employment gains in August, along with a further rise in average hourly earnings, suggests some improvement in wage and salary disbursements for that month.

Consumer spending has firmed in recent months, after extremely sharp declines earlier in the year. This improvement results in part

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980 QI	1980 QII	1980 June	1980 July
	- - Percentage change, at annual rates[1] - -					
Total personal income	12.9	11.2	10.9	4.4	6.3	16.4
Wage and salary disbursements	12.8	10.1	10.9	2.1	2.5	-1.5
Private	14.1	10.8	12.0	1.0	2.0	-2.8
Nominal disposable personal income	12.0	10.4	13.5	4.1	5.4	18.7
Real disposable personal income	4.2	.5	.9	-5.9	-1.0	n.a.
	- - Changes in billions of dollars[2] - -					
Total personal income	$17.8	$16.8	$13.9	$ 6.3	$10.9	$28.6
Wage and salary disbursements	11.5	9.7	10.4	-.5	2.8	-1.7
Private	10.1	8.4	9.1	-2.0	1.8	-2.5
Manufacturing	3.2	2.0	2.7	-3.6	-2.2	-1.8
Other income	7.1	8.1	4.3	7.2	8.3	30.5
Transfer payments	1.5	2.9	2.4	3.3	3.0	24.6
Less: Personal contributions for social insurance	.8	.9	.8	.3	.2	.3
Memorandum:						
Personal saving rate[3]	4.9	4.5	3.7	4.8	4.8	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 periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly change.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

from an upswing in outlays on motor vehicles. Unit sales of domestic autos, which rose sharply in July, remained at a 6.4 million unit annual rate in August, more than 20 percent above the unusually low selling pace of May and June. August sales reflected the continuation of dealer incentive programs by the three major auto companies: In contrast, sales of foreign cars fell back to the 2.1 million unit pace of the second quarter, after a temporary surge in July.

Nominal retail sales excluding autos and nonconsumption items rose about 3/4 percent in June and July; in real terms, however, these sales remained about unchanged in both months. The July gain in nominal sales reflected a sizable advance in purchases at the general merchandise, apparel, and furniture grouping of stores that was only partly offset by reduced spending at gasoline stations. The recent firming in retail sales coincides with an increase in both the Conference Board and University of Michigan measures of consumer confidence, although they still are quite low by historical terms. The surveys indicate that in August consumers were less pessimistic on balance than earlier about upcoming business conditions and about employment and income opportunities.

Business Fixed Investment

Fixed investment spending continued at a relatively low level in July. After drifting down throughout most of the first half of 1980, nominal spending on nonresidential construction fell 3.5 percent further in July, bringing the cumulative drop so far this year to just over 8 percent. Shipments of nondefense capital goods were about unchanged in July and were still 3-1/2 percent below the February peak. Motor vehicle spending, however, continued to pick up in July from the extremely low levels from earlier in the year.

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

	1979		1980				
	Q3	Q4	Q1	Q2	May	June	July
Total sales	4.0	2.0	2.1	-3.8	-.6	1.4	2.0
(Real)[1]	2.0	-.4	-1.2	-5.9	-1.0	1.0	1.4
Total, less auto and nonconsumption items	4.0	3.5	2.6	0.0	-.4	.8	.6
GAF[2]	4.6	1.7	-.1	-1.6	2.1	-.7	1.9
Durable	4.3	-1.5	.8	-12.2	-1.2	2.4	4.8
Auto	3.7	-3.0	1.5	-16.7	-1.8	4.5	8.3
Furniture & appliances	6.5	-1.1	1.0	-4.7	1.1	-1.0	1.1
Nondurable	3.8	3.9	2.8	.4	-.3	.9	.8
Apparel	4.8	-.7	1.4	1.0	1.1	1.6	.6
Food	2.3	3.3	2.3	1.8	-1.6	1.7	1.2
General merchandise[3]	3.8	3.7	-1.2	-1.4	2.8	-1.4	2.7
Gasoline	8.2	7.7	9.2	4.2	-.5	1.8	-.6

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	Q2	June	July	August
Total	10.8	9.8	10.6	7.7	7.6	9.0	8.6
Foreign-made	2.2	2.4	2.8	2.1	2.2	2.6	2.1
U.S.-made	8.6	7.4	7.9	5.5	5.4	6.4	6.4
Small	3.6	3.5	4.0	2.8	2.7	3.1	3.3
Intermediate & standard	4.9	4.0	3.9	2.7	2.7	3.3	3.2

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

Commitments data suggest that capital spending is likely to remain weak over the next few quarters in spite of some recent improvement. The volatile series on contracts for business construction generally has trended downward so far this year in both nominal and real terms, despite increases in June and July. Those increases reflected some pickup in the industrial and nonbuilding components while contracts for new commercial buildings fell further. New orders for nondefense capital goods in real terms rose 2.0 percent in July; however, these orders--which lead spending by about six months, on average--still were well below levels reached earlier this year. Moreover, new bookings for nondefense machinery (also in real terms), edged down in July to a level about 9-1/4 percent below the peak rate of the first quarter.

The latest Commerce Department survey of 1980 plant and equipment spending plans taken in July and August, reports that businesses expect to increase spending by 8.3 percent from 1979, 1.2 percentage points less than reported in the May survey. The downward revision is a result of sharp cutbacks in plans for spending in the second half of 1980, which are now indicated to be about the same as in the first half. This implies an appreciable decline in real terms in spending during the second half of the year.

As for longer-term commitments data, current dollar capital appropriations of the nation's 1000 largest manufacturers (net of cancellations) fell 12.8 percent in the second quarter, erasing half of the sharp increase posted during the first quarter. Excluding the volatile petroleum industry, the decline in second quarter capital spending commitments was more pronounced, and the level of net appropriations in these industries was below that of a year ago.

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

	1979	1980			
	Q4	Q1	Q2	June	July
Nondefense capital goods shipments					
Current dollars	1.4	6.0	-2.5	-0.6	0.1
Constant dollars[1]	2.7	2.0	-3.0	1.8	-2.3
Addenda: Unit sales of heavy-weight trucks (thousands)	330	330	240	260	280
Nonresidential construction					
Current dollars	4.2	3.3	-2.1	0.2	-3.4
Constant dollars	1.0	0.5	-3.3	-1.8	-4.1

1. FRB staff estimate.

BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period, based on seasonally adjusted data)

	1979	1980			
	Q4	Q1	Q2	June	July
Nondefense capital goods orders					
Current dollars	1.9	4.3	-9.2	1.9	4.4
Constant dollars	3.2	0.4	-9.6	4.4	2.0
Addendum: Ratio of unfilled orders to shipments (current dollars, monthly)	6.59	6.42	6.57	6.58	6.59
Machinery					
Current dollars	3.7	5.5	-13.0	2.9	1.6
Constant dollars[1]	5.0	1.5	-13.4	5.5	-0.8
Contracts for nonresidential plant					
Current dollars	18.8	-16.1	-31.7	86.8	9.8
Constant dollars	31.2	-17.8	-37.7	83.8	10.3

1. FRB staff estimate.

Inventory Investment

Businesses have been quite successful in preventing a further buildup of inventories in recent months following imbalances that emerged during the first half of 1980. Manufacturing and trade stocks, in real terms, fell at a $4-1/4 billion annual rate in June following an even larger drop in the preceding month. Consequently, the five-month uptrend in the stock-sales ratio was halted in June.

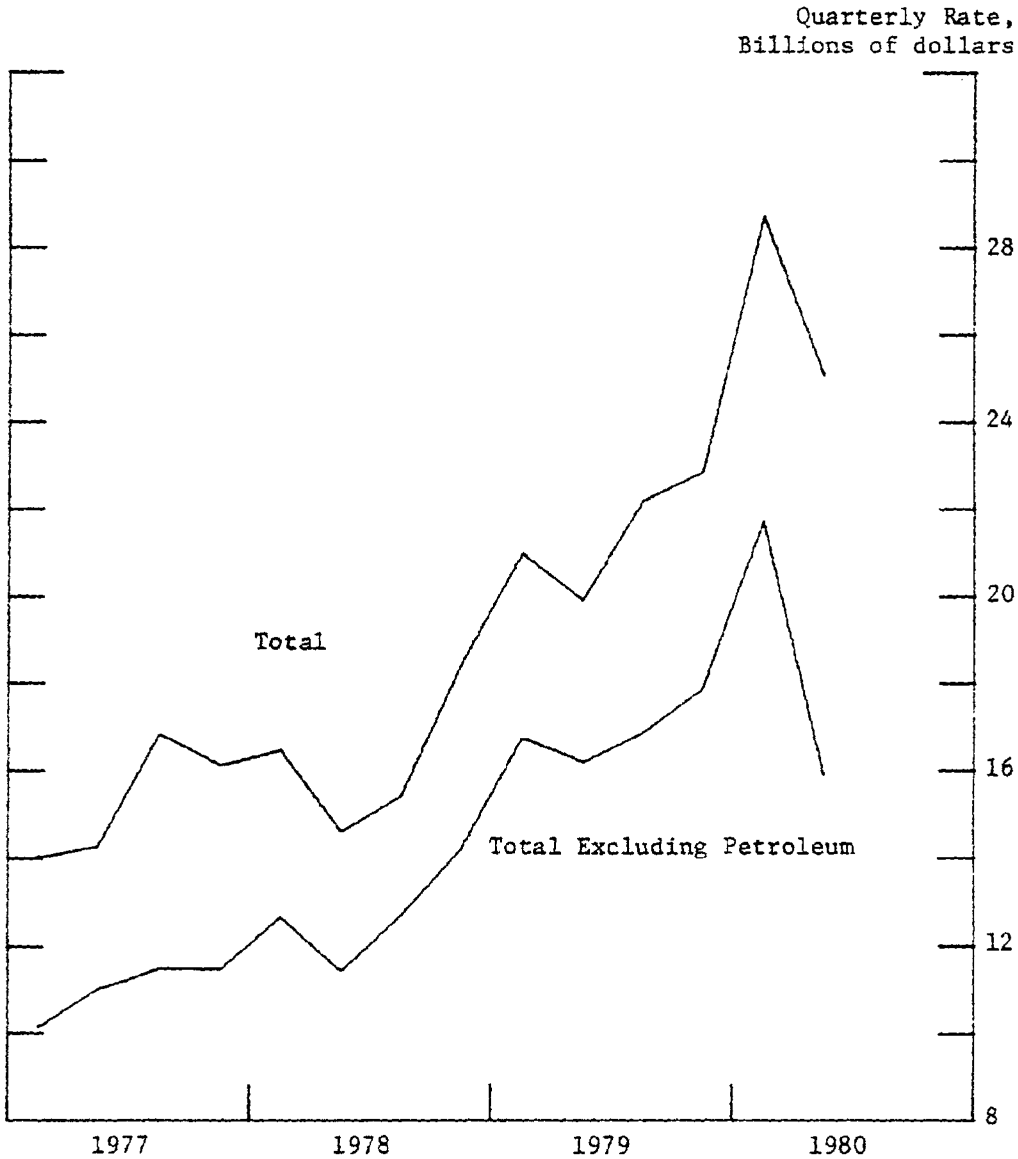
Data available for July provide confirming evidence that recent production adjustments have been effective in containing stock levels. Manufacturers' inventories in book value terms rose at an $11 billion annual rate in July, continuing the pattern of moderate increases seen in May and June, which were about one fourth the average rise during the first four months of the year. Most of the July increase in inventories was concentrated at manufacturers of aerospace products, nonelectrical machinery, food, and petroleum and coal products; however, elsewhere declines were widespread. The July increase in producers' inventories was accompanied by a 2.7 percent advance in shipments, and as a result, the stock-sales ratio for all manufacturers fell for the first time since January. In the wholesale trade sector, the ratio of inventories to sales also declined in July in spite of a sizable increase in the book value of stocks. Most of this accumulation was due to a large rise at merchant wholesalers of raw farm products as recent drought-related price increases swelled the value of stocks. Excluding this farm-related component, the rise in wholesale inventories was only slightly above the moderate increase in the previous month.

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

	1979	Planned for 1980			
		Commerce Department[1]			
		Dec. 1979	Feb. 1980	May 1980	Aug. 1980
All Business	15.1	10.9	11.1	9.9	8.7
Manufacturing	16.7	14.3	14.3	13.5	11.7
Durables	20.7	15.5	16.8	12.8	9.1
Nondurables	13.1	13.2	12.0	14.1	14.2
Nonmanufacturing	13.9	8.3	8.6	7.0	6.3
Mining	16.4	16.8	11.5	11.1	15.6
Transportation	25.7	10.4	16.3	8.2	6.1
Utilities	10.5	3.6	3.5	1.1	.6
Communication, Commercial, and other	13.8	10.0	10.0	10.2	8.9

1. Results are adjusted for systematic bias. Without this adjustment, the Commerce results would have been 11.1 percent in December, 13.2 percent in February, 10.9 percent in May, and 10.3 percent in August.

MANUFACTURERS' NEWLY APPROVED CAPITAL APPROPRIATIONS
(Net of cancellations)



CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Annual rate)

	1978	1979	1980 Q1	1980 Q2	1980 May	1980 June	1980 July
Book Value Basis							
Total	43.2	47.2	46.1	30.6	10.3	7.2	n.a.
Manufacturing	18.1	29.9	41.1	20.4	10.3	2.7	10.9
Wholesale	12.8	9.1	7.2	7.7	4.9	5.8	17.5
Retail	12.3	8.1	-2.1	2.5	-5.0	-1.3	n.a.
Constant Dollar Basis							
Total	12.8	7.7	-1.8	3.1	-8.7	-4.2	n.a.
Manufacturing	5.3	7.2	5.3	4.1	-1.9	-1.4	n.a.
Wholesale	4.2	1.0	0.2	.9	-1.6	0.2	n.a.
Retail	3.2	-0.5	-7.3	-2.0	-5.2	-3.0	n.a.

Totals may not add due to rounding.

INVENTORIES RELATIVE TO SALES

	1980	1979	1980 Q1	1980 Q2	1980 May	1980 June	1980 July
Book Value Basis							
Total	1.42	1.42	1.42	1.52	1.53	1.52	n.a.
Manufacturing	1.52	1.52	1.57	1.71	1.72	1.72	1.68
Wholesale	1.20	1.17	1.15	1.23	1.22	1.22	1.21
Retail	1.44	1.46	1.40	1.46	1.47	1.45	n.a.
Constant Dollar Basis							
Total	1.55	1.59	1.60	1.71	1.73	1.73	n.a.
Manufacturing	1.78	1.83	1.90	2.09	2.09	2.11	n.a.
Wholesale	1.28	1.31	1.31	1.36	1.39	1.38	n.a.
Retail	1.38	1.41	1.35	1.41	1.43	1.41	n.a.

Residential Construction

The housing market improved during the summer from the depressed second quarter levels, reflecting the easing in mortgage credit conditions that began in the spring. Housing starts were at a 1.3 million unit annual rate in July, almost 40 percent above their nadir of May. Building permits have risen even more rapidly; a 60 percent upswing between April and July was followed by another sizable rise in the first half of August, according to an advanced sample reading. However, qualitative reports indicate that the increase moderated appreciably in the latter part of the month as mortgage interest rates rose.

Starts of single-family units advanced 40 percent from May to July, largely reflecting improved market conditions and in builder inventory positions. New house sales, which had fallen to an extremely low level in April, rebounded in each of the subsequent three months. As a result, by the end of July the number of unsold units stood at its lowest level in more than four years. Existing house sales also rose sharply in June and July, after eight consecutive months of decline. Nevertheless, these sales stood well below the record pace in late 1978. In the multifamily sector, activity has improved in recent months, but the July rate of 400,000 starts also remained well below the most recent peak recorded over two years earlier.

Federal Government Sector

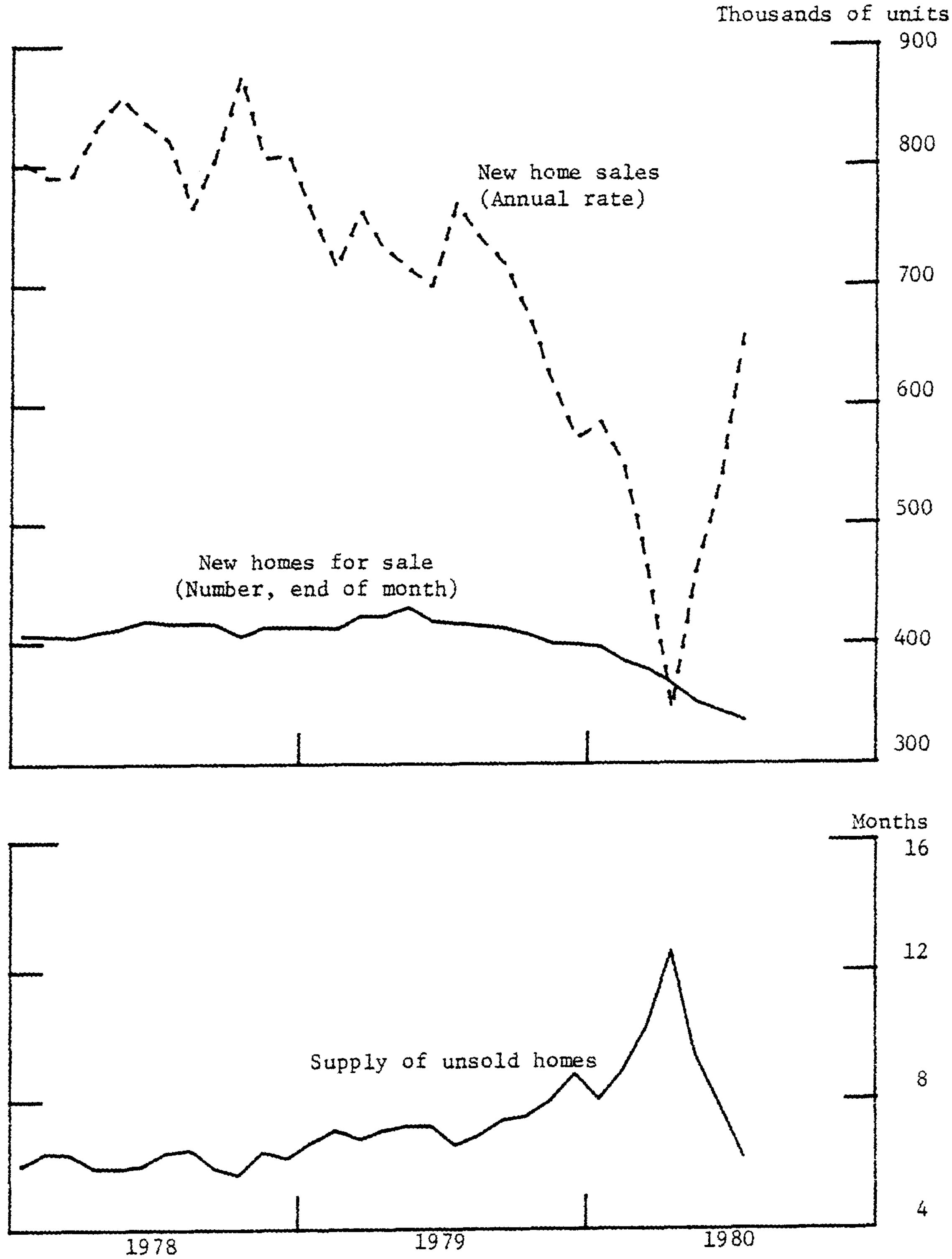
Federal government spending, on a unified budget basis, was slightly above administration expectations in July; most of the overrun was due to purchases of military goods on behalf of foreign

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

	1979		1980				
	Annual	Q4	Q1	Q2	May	June	July[1]
All units							
Permits	1.55	1.34	1.14	.90	.83	1.08	1.24
Starts	1.75	1.59	1.26	1.05	.91	1.21	1.27
Single-family units							
Permits	0.98	.82	.68	.53	.50	.63	.79
Starts	1.19	1.06	.80	.67	.63	.76	.87
Sales							
New homes	.71	.62	.53	.45	.46	.54	.66
Existing homes	3.74	3.56	2.93	2.40	2.31	2.48	2.92
Multifamily units							
Permits	.57	.52	.45	.37	.33	.45	.45
Starts	.55	.54	.46	.38	.28	.45	.40
Mobile home shipments	.28	.26	.26	.18	.16	.16	n.a.

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

MARKET CONDITIONS FOR NEW SINGLE-FAMILY HOMES
(Seasonally adjusted)



governments and to social security payments. Preliminary Treasury data for August suggest that some offset to the July overruns may have occurred. In particular, the Commodity Credit Corporation (CCC) account registered a large offset to outlays, as farmers--responding to higher agricultural prices--appeared to be repaying CCC loans and redeeming the crops used as collateral. On balance, outlays appear to be about in line with the Administration's July forecast of $578 billion for FY1980. On the receipts side, withheld tax collections for July and August have been stronger than previously expected by the staff.

During the past month, the Senate Budget Committee approved a Second Concurrent Resolution for fiscal year 1981--based on revised economic assumptions--that contains an $18 billion deficit, reflecting outlays of $633 billion and receipts of $615 billion. The Committee voted not to include a tax cut in its resolution at that time. However, the Senate Finance Committee has approved a $39 billion tax cut (liability basis) for calendar year 1981. And in late August, the administration announced an economic revitalization plan calling for a tax cut of about $28 billion, which includes $9 billion in tax incentives to encourage private investment and $18-1/2 billion of personal and business income tax credits to offset the scheduled rise in social security taxes and deductions to reduce the "marriage penalty."

State and Local Government Sector

Recent activity in the state and local government sector has remained sluggish, as small employment gains were coupled with further reductions in capital investment. Preliminary data indicate that state and local governments increased payrolls by only 12,000 in August.

Construction spending continued the downward trend that has been evident since the beginning of the year. In July, outlays for new construction decreased 3.6 percent--down nearly one-fifth from the recent January peak level. The July decrease was due primarily to a fall-off in building projects; in contrast, most of the decrease in construction outlays that occurred earlier this year resulted from sharp reductions in highway, water, and power-generating projects.

Prices

Inflationary pressures generally remain strong, although recent aggregate price indexes have exhibited contrasting movements. Increases in retail prices of food and many commodity items accelerated in July, but a sharp decline in contracted mortgage interest costs kept the overall CPI from increasing. At the producer level, finished goods prices rose rapidly in both July and August, averaging almost 20 percent at an annual rate--a pace similar to that of the first quarter of 1980. This recent surge in these producer prices has been associated primarily with a sharp increase in food prices, which had edged down in the first half of the year.

Producer food prices accelerated at all stages of processing in July and August, largely as a result of recent cutbacks in pork and beef production and the effects of adverse weather conditions on poultry supplies and feed grains. Farm prices soared 9.0 percent in both July and August as the drought pushed up grain, poultry, and beef prices. Retail food prices rose 1 percent in July.

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

	Relative importance[2] Dec. 1979	1978	1979	1980 Q1	1980 Q2	1980 July	1980 Aug.
Finished goods	100.0	9.2	12.6	19.3	6.0	20.3	18.5
Consumer foods	24.3	11.9	7.6	-1.2	-7.8	45.6	53.1
Consumer nonfood	47.4	8.4	18.0	34.8	10.1	11.1	6.7
Energy	10.3	8.0	62.7	109.4	17.0	-7.7	2.6
Exc. energy	37.0	8.5	9.6	18.1	7.7	17.8	8.2
Capital equipment	28.4	8.0	8.8	13.4	10.9	16.1	10.9
Intermediate materials[3]	94.9	8.3	16.5	24.0	4.4	8.2	6.4
Exc. food and energy	81.4	8.9	13.0	18.3	4.1	3.7	7.3
Crude food materials	55.5	18.3	11.1	-16.7	-10.5	107.5	108.4
Crude nonfood	44.5	15.6	26.0	21.9	-3.9	38.6	21.9
Exc. energy	16.0	21.0	13.1	7.4	-38.0	85.1	35.1

1. Changes are from final month of preceding period to final month of period indicated. Monthly changes 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 Q2	1980 July
All items	100.0	9.0	13.3	18.1	11.6	0.0
Food	17.7	11.8	10.2	3.8	5.6	11.5
Energy[3]	10.3	8.0	37.4	64.8	8.1	3.6
All items less food and energy[3]	72.0	8.5	11.3	15.7	13.5	-2.1
Homeownership	24.9	12.4	19.8	24.1	26.6	-21.7
All items less food, energy and homeownership[4]	50.7	6.9	7.5	12.1	7.6	8.0
Used cars	2.8	13.6	2.2	-2.5	-16.8	8.7
Other commodities[5]	21.3	5.3	6.6	12.9	6.9	7.7
Other services[5]	26.6	7.7	8.8	12.3	11.0	6.1
Memorandum:						
Gasoline	5.6	8.5	52.2	105.7	-6.2	-5.5

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.
4. Reconstructed series; includes home maintenance and repairs (relative importance weight of 3.6), also a component of homeownership costs.
5. Reconstructed series.

Price developments in the energy sector continued to hold down overall inflation rates at the consumer level in July, largely reflecting a small decline in gasoline prices. But gas and electric rates generally have continued to rise rapidly in recent months. At the producer level, energy price developments for the most part exhibited similar trends.

Shelter costs declined sharply in July, reflecting the 5.7 percent decrease in mortgage closing rates recorded in June as well as the recent deceleration in rents and home purchase prices. FHLBB data on settlement rates indicate that further declines are likely to be reflected in the CPI conventional mortgage rate component for August and September. This improvement could be short-lived as mortgage commitment rates have risen substantially in recent weeks.

Prices for consumer items other than food, energy, and homeownership continued rising at a relatively rapid 8 percent annual rate in July. Increases were quite large for commodities, particularly new and used cars, as automakers continued their practice of raising prices at the beginning of each quarter. The rise in prices of consumer service slowed in July to about half the pace recorded in the first half of the year. At the producer level, prices for nonfood, nonenergy items accelerated markedly in July but generally slowed in August. On balance, over the two-month period, price advances at all stages of production have been more rapid than during the second quarter.

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

	1978	1979	Aug. 1979 to Aug. 1980	1980 Q1	1980 Q2	1980 July	1980 Aug.
Total private nonfarm	8.4	8.1	9.0	9.4	9.9	4.1	6.6
Manufacturing	8.4	8.7	10.6	9.9	12.6	10.1	7.6
Durable	8.5	8.7	10.8	10.6	13.6	10.5	5.2
Nondurable	8.2	8.7	10.2	8.8	10.8	9.4	12.3
Contract construction	7.6	6.8	6.6	5.0	8.9	7.6	5.7
Transportation and public utilities	7.4	9.0	7.0	7.8	9.1	-.4	-1.7
Total trade	9.6	7.6	8.3	11.2	7.1	5.5	6.4
Services	7.6	7.6	9.3	8.8	9.8	-2.2	9.0
Real Hourly Earnings Index	-.5	-4.3	-3.5[3]	-6.5	-3.3	3.7	n.a.

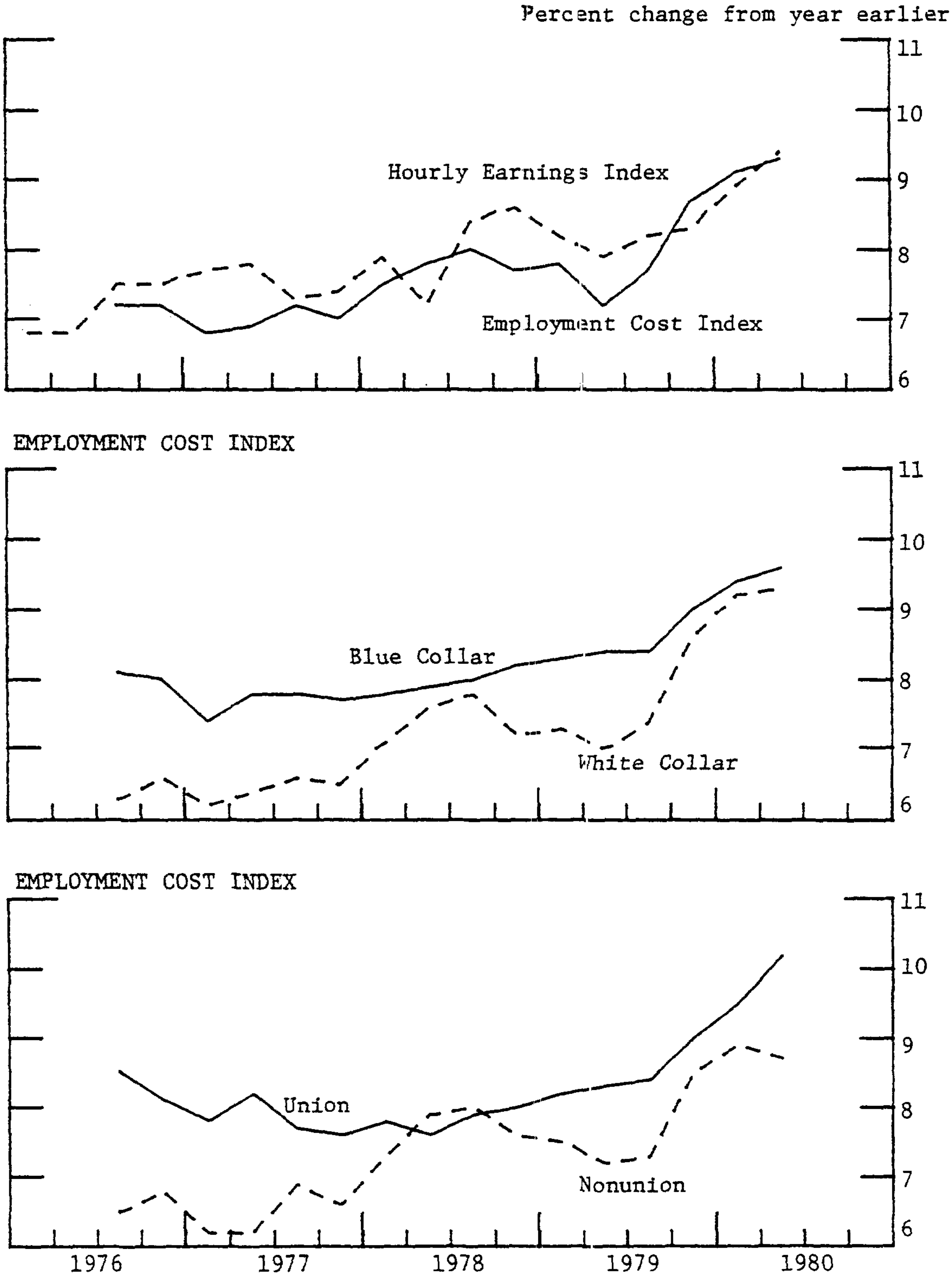
1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
3. Change from July 1979 to July 1980.

Wages and Labor Costs

Wage rates accelerated substantially in the first half of 1980. Although the volatile index of average hourly earnings for production workers rose at just a 6-1/2 percent annual rate in August, this measure of basic wage movements now stands 9 percent above the level of a year ago. Despite the pick-up in nominal wage changes, in real terms wage rates remain well below those of a year earlier.

The Employment Cost Index (ECI), which measures wage rate changes for both blue- and white-collar workers, shows a similar acceleration in labor costs. Over the twelve-month period ending in June, the index for wages and salaries rose 9.3 percent, as compared with a 7.6 percent rise over the preceding year. Like the hourly earnings index, this ECI shows that, by industry, wage adjustments in the manufacturing sector generally have outpaced those in other sectors. In both manufacturing and nonmanufacturing industries, workers in establishments in which the majority of employees are unionized--and, thereby, are more likely to be covered by formal cost-of-living adjustments--have fared better than their non-union counterparts. The spillover from these types of cost-of-living adjustments also appears to have resulted in an acceleration in white-collar pay, particularly for workers in professional and clerical occupations.

SELECTED MEASURES OF WAGE CHANGE



SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data: Period	Latest data: Level	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
		$ billions	Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	August	40.76	16.9	6.3	6.1
Nonborrowed reserves	August	40.10	9.1	10.1	7.4
Money supply					
M-1A	August	379.2	17.7	12.4	4.2
M-1B	August	401.2	19.8	15.4	5.6
M-2	August	1627.2	13.4	16.6	9.1
M-3	August	1885.6	13.3	13.4	9.3
CB Gross Time and savings deposits	August	697.1	7.4	2.7	8.9
Total Thrift deposits (S&Ls + MSBs + Credit Unions)	August	693.6	10.8	10.2	6.2
Bank credit	August	1177.8	16.0	7.0	6.5

		Latest data: Period	Latest data: Percent or index	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	9/3/80	10.47	.87	-.27	-.55
Treasury bill (90 day)	" "	9/3/80	9.97	1.32	2.26	.06
Commercial paper (90-119 day)	" "	9/3/80	10.61	1.60	1.76	-.42
New utility issue Aaa	" "	9/5/80	12.25	.22	1.34	—
Municipal bonds (Bond Buyer) 1 day	1 day	9/4/80	8.78	.17	1.11	2.31
FNMA auction yield (FHA/VA)		9/2/80	14.41	.83	1.99	3.49
Dividend price ratio (common stocks)	wk. endg.	9/3/80	5.06	-.06	-.52	-.31
NYSE index (12/31/65=50)	end of day	9/2/80	71.28	1.84	8.06	9.93

	Net Change or Gross Offerings: Period	Latest data	Year ago	Year to date: 1980	Year to date: 1979
Credit demands					
Business loans at commercial banks[1]	August	4.9	4.3	10.6	33.1
Consumer instalment credit outstanding[1]	July	-.6	2.4	-4.4	22.7
Mortgage debt outstanding (major holders)[1 2]	June	.6	8.9	26.8	51.6
Corporate bonds (public offerings)	July	5.3	2.2	28.8e	15.9
Municipal long-term bonds (gross offerings)	August	4.0e	4.3	31.8	28.9
Federally sponsored agcy. (net borrowing)	July	.6	3.1	15.1	14.9
U.S. Treasury (net cash borrowing)	July	9.7	4.8	34.2	10.8

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

The narrow monetary aggregates expanded at record rates during August as they continued to rebound from their decline early in the second quarter. Relative to increasing bank demands, the System's provision of nonborrowed reserves became less accommodative, and the federal funds rate climbed above 10 percent in late August, from around 9 percent at the time of the last FOMC meeting. As the federal funds rate rose above the discount rate, member bank adjustment borrowing increased from minimal levels to over $1 billion in the first statement week of September.

Other short-term market interest rates also have moved up on balance since the last FOMC meeting--by about 1-1/4 to 1-1/2 percentage points--initially sparked by market reaction to the sharp expansion in the aggregates, and later in response to the increase in the funds rate. Continued unfavorable news on inflation, the apparent increased likelihood of a tax cut, and some evidence that the recession might be waning also exerted upward pressure on short-term rates. Long-term market rates have risen only about 1/4 percentage point further during the intermeeting period but are about 1-3/4 points above the mid-June lows. Rates which had lagged earlier upward movements--the bank prime rate and rates on new home-mortgage commitments--rose in August and early September; consumer finance rates retreated in July-August from record levels.

Borrowing by the private nonfinancial sectors apparently increased a bit in August. A sharp increase in short- and intermediate-term business borrowing from banks outweighed a decline in commercial paper

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1979 FOMC Oct. 5	1980 Mar-Apr High	1980 Mid-June** Low	FOMC Aug. 12	Sept. 9	Change from: Mar-Apr High	Change from: Mid-June Low	Change from: FOMC Aug. 12
Short-term rates								
Federal funds[2]	11.91	19.39	8.99	8.85	10.24p	-9.15	1.25	1.39
Treasury bills								
3-month	10.70	16.00	6.18	8.64	10.04	-5.96	3.86	1.40
6-month	10.63	15.64	6.60	8.89	10.17	-5.47	3.57	1.28
1-year	10.28	14.58	7.00	8.91	10.05	-4.53	3.05	1.14
Commercial paper								
1-month	11.73	18.00	7.98	9.08	10.35	-7.65	2.37	1.27
3-month	11.86	17.69	7.78	9.17	10.51	-7.18	2.73	1.34
6-month	11.84	17.25	7.59	9.23	10.53	-6.72	2.94	1.30
Large negotiable CDs[3]								
1-month	12.09	17.87	7.96	9.26	10.36	-7.51	2.40	1.10
3-month	12.50	18.59	7.90	9.51	10.91	-7.68	3.01	1.40
6-month	12.80	18.47	7.66	9.84	11.30	-7.17	3.64	1.46
Eurodollar deposit[2]								
1-month	12.45	19.04	8.88	9.70	10.74	-8.30	1.86	1.04
3-month	12.79	19.60	8.99	10.33	11.48	-8.12	2.49	1.15
Bank prime rate	13.50	20.00	12.00	11.00	12.00	-8.00	0	1.00
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	10.01	14.53	8.56	10.16	11.08	-3.45	2.52	.92
10-year	9.60	13.65*	9.47	10.98	11.19	-2.46	1.72	.21
30-year	9.36	12.85*	9.49	11.01	11.05	-1.80	1.56	.04
Municipal (Bond Buyer)[4]	6.64	9.44	7.44	8.61	8.78	-.66	1.34	.17
Corporate Aaa								
New issue[5]	10.22	14.22	10.53	12.03	12.25p	-1.97	1.72	.22
Recently offered[6]	10.25	14.12	10.79	12.10	12.41p	-1.71	1.62	.31
Primary conventional mortgages[6]	11.35	16.35	12.35	12.25	13.03	-3.32	.68	.78

	FOMC Oct. 5	Mar-Apr Low	Mid-June High	FOMC Aug. 12	Sept. 9	Mar-Apr Low	Mid-June High	FOMC Aug. 12
Stock Prices								
Dow-Jones Industrial	897.61	759.13	881.91	952.39	934.73	175.60	52.82	-17.66
NYSE Composite	63.39	55.30	66.36	70.92	71.64	16.34	5.28	.72
AMEX Composite	235.15	215.69	297.60	318.96	331.44	115.75	33.84	12.48
NASDAQ (OTC)	152.29	124.09	159.18	176.62	184.84	60.75	25.66	8.22

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.
p-- preliminary.

outstanding and a reduction in the still sizable volume of bond offerings. Borrowing by households picked up in July, and probably firmed further in August, as mortgage commitment and lending activity strengthened and the contraction in consumer credit was sharply curtailed. In the public sector, Treasury borrowing was still heavy in August when a substantial portion of the large deficit for the quarter was funded; little further Treasury financing has occurred in early September. State and local government borrowing lightened in August, as many issuers reacted to higher yields by cancelling or postponing offerings, but the calendar for September is quite heavy.

Monetary Aggregates and Bank Credit

Growth in M-1A accelerated sharply in August to a record 17-3/4 percent annual rate, reflecting both faster currency expansion and a surge in demand deposits which was widespread geographically and by class of bank. M-1B also grew at a record annual rate in August, despite some moderation in the rapid growth of other checkable deposits. Factors underlying the strength in the narrow monetary aggregates likely included a lagged response of money demand to earlier declines in interest rates, some firming of economic activity, and perhaps some rebuilding of transactions balances following their substantial shortfall relative to nominal GNP in the second quarter. The earlier than usual mailing of social security checks in August explained only a small part of the strength in the narrow aggregates.

Growth in M-2 slowed to a 13-1/2 percent annual rate last month from a 17-1/2 percent rate in July, as a marked deceleration in its nontransactions component more than offset the speed-up in M-1B. Overnight RPs

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

	1979	1980					Aug. '79 to Aug. '80[e]
	Q4	Q1	Q2	June	July	Aug.[e]	
	---- Percentage change at annual rates ----						
Money stock measures							
1. M-1A	4.5	4.8	-3.9	11.4	7.8	17.7	4.2
2. M-1B	5.0	5.9	-2.3	14.9	11.0	19.8	5.6
3. M-2	7.1	7.2	5.5	18.2	17.6	13.4	9.1
4. M-3	9.1	7.8	5.8	13.4	13.2	13.3	9.3
Selected components							
5. Currency	8.5	8.3	7.0	9.8	10.8	15.0	9.4
6. Demand deposits	2.9	3.4	-8.3	12.1	6.0	19.7	2.2
7. Other checkable deposits, NSA[2]	12.6	29.3	34.1	77.4	72.7	57.1	38.4
8. M-2 minus M-1B (9+10+11+14)	7.8	7.7	8.1	19.3	19.8	11.4	10.3
9. Overnight RPs and Eurodollars, NSA[3]	-33.1	-7.5	-72.0	67.6	186.7	69.2	-3.8
10. Money market mutual fund shares, NSA	120.0	151.9	82.7	132.9	103.5	1.5	158.7
11. Commercial banks	8.6	6.9	9.8	10.9	13.5	10.2	9.2
12. savings deposits	-16.5	-19.3	-22.6	32.9	38.6	23.9	-8.2
13. small time deposits	32.1	29.1	33.9	-3.1	-3.1	0.4	25.7
14. Thrift institutions	3.7	-0.3	3.7	11.4	8.9	10.9	4.3
15. savings deposits	-26.0	-22.5	-27.1	23.7	37.6	28.3	-12.9
16. small time deposits	22.3	12.0	19.3	6.0	-4.3	3.0	15.1
17. Large time deposits	28.3	17.8	10.6	-22.0	-21.3	1.6	12.4
18 at commercial banks, net[4]	20.2	9.9	7.4	-25.9	-26.5	0.0	6.5
19. at thrift institutions	90.8	72.6	28.9	0.0	6.7	10.0	5
20. Term RPs, NSA	-16.0	-31.9	-19.4	44.3	47.0	94.5	-
	--Average monthly change in billions of dollars--						
MEMORANDA:							
21. Managed liabilities at commercial banks (22+23)	-1.9	8.0	-7.5	-14.2	-4.9	n.a.	n.a.
22. Large time deposits, gross	2.0	3.1	0.0	-5.0	-3.9	0.5	1.5
23. Nondeposit funds	-3.9	4.9	-6.5	-6.2	-1.0	n.a.	n.a.
24. Net due to related foreign institutions, NSA	-2.5	1.6	-5.9	-8.1	-4.2	n.a.	n.a.
25. Other[5]	-1.4	3.3	-0.6	2.0	3.2	n.a.	n.a.
26. U.S. government deposits at commercial banks[6]	-1.0	-0.2	0.4	-0.8	2.1	0.9	-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.

and Eurodollars grew more moderately than in July, and there was virtually no growth in money market mutual fund shares during August. In fact, outstanding shares in money market mutual funds dropped more than $2.5 billion between mid-August and early September, in response to a widening gap between rates of return on MMMF shares and higher yields on alternative short-term instruments.[1] In contrast, the rising Treasury bill rates in August induced a net increase in noncompetitive tenders at weekly bill auctions after declines in each of the preceding three months.

Changing yield relationships also altered the pattern of inflows to savings and small time deposits at banks and thrift institutions in August. As market-related interest rates on variable-ceiling small time deposits rose relative to fixed ceiling rates on savings accounts, the recent rapid growth in savings balances moderated, and small time deposits increased slightly after declining in July. The ceiling rate on MMCs rose about 1-1/4 percentage points more than that on SSCs, eliminating the spread in favor of SSCs by month-end. Reflecting this change, data for August indicate that at S&Ls outflows from MMCs diminished considerably, and even though inflows to SSCs slackened, overall growth in small time deposits at S&Ls turned positive (end of month basis).

Preliminary estimates for August suggest that bank credit expansion picked up during the month, continuing its recovery from the absolute declines registered in the second quarter. Bank acquisition of securities--especially U.S. government obligations--remained strong, perhaps

1. Managers of MMMFs had lengthened the average maturity of their portfolios in early April, thereby limiting the decline in their average net yield to shareholders when interest rates were dropping sharply. In August, however, MMMFs maintained their average maturity in the 45-50 day range; thus the increase in MMMF rates paid to shareholders lagged the rise in rates available elsewhere.

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

	1979 Q4	1980 Q1	1980 Q2	1980 June	1980 July	1980 Aug.[e]	Aug. '79 to Aug. '80[e]
	Commercial Bank Credit						
1. Total loans and investments at banks[2]	3.4	11.5	-4.4	-2.6r	7.5r	16.0	6.5
2. Investments	3.5	7.3	11.0	17.1	26.5r	23.2	11.2
3. Treasury securities	-5.9	3.0	10.6	30.4	48.2r	38.1	10.6
4. Other securities	8.3	9.4	11.2	10.8	16.1r	15.9	11.6
5. Total loans[2]	3.4	12.8	-9.4r	-9.2r	0.8	13.4	4.9
6. Business loans	6.0	16.4	-8.9r	-7.6r	2.0	19.7	7.4
7. Security loans	-88.5	-32.8	-23.8r	0.0r	-60.8r	64.0	-31.3
8. Real estate loans	14.2	11.9	1.0	-1.9	5.3	5.3	9.1
9. Consumer loans	5.5	3.7	-21.5	-25.6	-14.4r	n.a.	n.a.
	Short- and Intermediate-Term Business Credit						
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	6.4	22.0	1.2r	4.5r	2.9	n.a.	n.a.
11. Business loans net of bankers acceptances[1]	6.3	17.6	-10.5r	-10.3r	0.8r	20.4	7.2
12. Commercial paper issued by nonfinancial firms[3]	15.5	76.2	86.9	87.7	16.9	-41.7	53.3
13. Sum of lines 11 & 12	7.0	23.1	-0.2r	1.5r	2.9r	12.3	11.4
14. Finance company loans to business[4]	4.0	-2.8	-4.0	-6.9	-6.9	n.a.	n.a.
15. Total bankers acceptances outstanding[4]	4.6	54.1	33.9	39.4	15.7	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. r--revised.

in part to satisfy customer demand for RPs and to provide required backing for U.S. government deposits, which increased about $900 million.

Total loans grew rapidly in August after little change in July. Business loan expansion was robust at large banks and foreign-related institutions, bolstered in part by a further narrowing of the spread of the prime rate over open market rates. At small banks, business loans showed a small growth following four months of decline. Security loans at banks also appear to have increased last month for the first time since September 1979, concurrent with a rise in dealer inventories of securities. Real estate lending remained at the improved July pace, while at large banks the contraction in lending to individuals eased further.

With overall loan demands strengthening, commercial banks apparently supplemented strong inflows of core deposits in August with a large increase in RP borrowing and a resumption of issuance of gross large time deposits after two months of run-offs. The elimination in late July of the remaining marginal reserve requirement on managed liabilities and of the supplemental reserve requirement on large time deposits also provided banks a source of funds for loans and investments. Banks further reduced their net Eurodollar borrowing during the month.

Business Finance

Business demands for short- and intermediate-term credit increased in August, on balance, as accelerated borrowing at banks more than offset the sharp drop in nonfinancial commercial paper outstanding. Offerings of corporate bonds remained sizable though abating somewhat, and stock offerings continued quite strong.

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

	1980				
	Q1	Q2[p]	July[p]	Aug.[p]	Sept.[f]
	-------- Seasonally adjusted ---------				
Corporate securities--total	5,220	7,650	7,525	6,625	5,600
Publicly offered bonds	1,895	5,600	5,325	4,350	3,650
Privately placed bonds	1,740	825	800	800	800
Stocks	1,585	1,225	1,300	1,475	1,200
	------ Not seasonally adjusted -------				
Publicly offered bonds--total	1,954	5,879	5,300	3,900	3,600
By quality[1]					
Aaa and Aa	1,020	3,230	2,675	1,300	--
Less than Aa[2]	934	2,649	2,625	2,600	--
By type of borrower					
Utility	1,175	1,305	900	1,600	--
Industrial[3]	440	2,989	3,525	1,900	--
Financial	339	1,585	875	400	--
Stocks--total	1,518	1,278	1,200	1,300	1,200
By type of borrower					
Utility	549	506	700	500	--
Industrial	866	565	400	600	--
Financial	103	207	100	200	--

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.

After slowing their net issuance of commercial paper in July, nonfinancial corporations ran off such debt rapidly last month. Dealers reported that several customary issuers of commercial paper were shifting emphasis to longer-term borrowing--selling almost $2.5 billion of long-term debt in August, in continued efforts to restructure balance sheets. In addition, some lower-rated issuers were attracted to bank loans by the comparatively favorable prime rate and by a slight easing of standards to qualify for the prime rate (or for a given spread above prime) reported by respondents to the Senior Loan Officer Opinion Survey in mid-August. (See Appendix A.)

The further increases in corporate bond yields during August--to about 2 percentage points above their lows in late June--contributed to a reduced pace of public offerings overall. Gross public bond offerings in August totaled about $4.4 billion, seasonally adjusted, compared with a $6.4 billion average for the previous three months. Industrial corporations and financial concerns curtailed the amount of their public offerings in August, while offerings by utilities increased. Several nonfinancial corporations structured their August debt offerings so that note obligations carrying maturities of 10 years or less accounted for the highest proportion of total offerings since March.

Most major indexes of stock prices have risen slightly further on balance since the last FOMC meeting, setting new historic highs in the intermeeting period. The generally high level of share prices has continued to elicit a large amount of stock offerings, particularly by industrial concerns; average monthly volume through August this year has

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

	Q1	Q2	July	Aug.e/	Sept.f/
	---------- Seasonally adjusted ----------				
State and local government securities, gross offerings					
Total	4.71	6.55	7.81	6.63	6.45
Long-term	2.73	4.63	4.96	3.78	5.24
Short-term	1.98	1.92	2.85	2.85	1.21
U.S. government securities, net offerings					
U.S. Treasury[1]	9.55	4.87	12.84	8.92	0.42
Sponsored agencies	3.06	1.60	1.21	-1.05	0.11
	------- Not seasonally adjusted ---------				
State and local government securities, gross offerings					
Total	4.26	7.89	7.00	6.50	5.50
Long-term	2.60	5.07	4.60	4.00	4.00
Housing revenue bonds	0.85	1.38	0.91	0.81	1.10
Single-family	0.75	1.32	0.65	0.62	0.85
Multi-family	0.10	0.06	0.26	0.19	0.25
Short-term	1.66	2.82	2.40	2.50	1.50
U.S. government securities, net offerings					
U.S. Treasury[1]	10.82	0.98	11.25	12.37	0.00
Bills	7.91	-4.18	8.66	4.76	-0.60
Coupons	2.91	5.16	2.59	7.61	0.60
Sponsored agencies	2.57	1.78	1.55	-0.61	0.80

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

run at a record rate. Initial public offerings--mostly by small industrial firms--have been at their most rapid pace (through May--latest data available) since 1972.

Government Debt Markets

The Treasury has a substantial deficit to fund this quarter, and marketable borrowing from the public has been correspondingly high, currently estimated by staff at about $24 billion for the quarter. A sizable part of the borrowing was accomplished in August when the Treasury raised over $12 billion. Of this amount, $4-3/4 billion was raised in regular bill auctions, a high proportion by past norms but lower than in previous months this year. Thus far in September, little further Treasury borrowing has taken place in the markets. Net changes in non-marketable debt have also been minor.

Federally sponsored credit agencies are estimated to have run off about $1 billion of debt in August on a seasonally adjusted basis. Only the Federal Farm Credit Banks raised net funds in August, in about the same amount ($900 million) as on average in the first seven months of 1980. The Federal Home Loan Banks ran off about $500 million of debt last month. This run-off reduced FHLB liquidity since advances to savings and loans in August rose by about $800 million, compared with reductions in advances of well over $1 billion in each of the previous three months. The Federal National Mortgage Association pared its indebtedness about $1.5 billion during August, almost entirely in discount notes. The reduction was part of a restructuring of FNMA's liabilities that included issuance of $1 billion in debentures in late July. FNMA's mortgage holdings changed little in August, as in other recent months, because deliveries to FNMA under prior commitments have been sharply curtailed, mainly reflecting the low levels of prices established in the auctions of 4-month purchase commitments held earlier in the year.

Higher yields on municipal securities contributed substantially to the cancellation or postponement of about $125 million of notes and a record $976 million of bonds in August. Nearly all of the bonds displaced were revenue bonds, on which yields rose more than on general obligation bonds, widening the average spread between them to about 95 basis points. Over half of the unissued revenue bonds were for housing purposes. Effective subsidies to the ultimate borrower have been reduced by the combination of higher interest costs on the mortgage revenue bonds and lagging rates in primary mortgage markets. As a result, financial institutions and homebuyers have felt less incentive to participate in the programs.[1]

In the wake of the large amount of displacements, the volume of tax-exempt bonds offered for sale during August declined to about $3.8 billion (seasonally adjusted), considerably below July's total of nearly $5 billion. Housing revenue bonds, despite the difficulties encountered by some issues, continued to account for about a fifth of the total municipal bond volume.

Mortgage Markets

Mortgage interest rates have increased substantially since the last FOMC meeting, while evidence has accumulated to confirm an upturn in mortgage commitment and lending activity that was becoming apparent

1. A typical case was the cancellation of a $100 million New Orleans mortgage bond issue that had attracted prior commitments of only $38 million from financial institutions participating in the program.

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
1980--High	16.35	--	+385	93
Low	12.18	--	-24	60
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	14.26	-207	+258	85
June	12.71	-155	+171	74
July	12.19	-52	+78	70
Aug. 1	12.25	+7	+25	70
8	12.25	0	+15	68
15	12.55	+30	+28	68
22	12.80	+25	+44	71
29	12.95	+15	+27	64
Sept. 5	13.03	+8	+62	60

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]
1980--High	426	133	17.51	644	324	15.93	13.84
Low	54	24	12.76	199	89	12.28	11.03
1980--Aug. 4	205	107	13.31	643	355	13.58	11.99
11							12.41
18	226	112	14.00	420	274	14.26	12.46
25							12.48
Sept. 2	121	71	14.19	324	183	14.41	12.57
8							12.59

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.

prior to the August meeting. The rebound in the volume of activity has occurred primarily at depository institutions, where net mortgage lending--particularly to finance the construction or purchase of homes--had fallen precipitously in the second quarter.

At commercial banks, net mortgage lending is estimated to have grown in August at about the improved pace reached in July. According to the mid-August Senior Loan Officer Opinion Survey, the willingness of banks to make mortgage loans had increased a bit between May and August, particularly in the case of short-term construction and land development loans.

At S&Ls, new mortgage commitments rose 60 percent in July, following a substantial rebound in June from the May trough. Mortgage commitments outstanding at S&Ls (including loans in process) also increased for the second consecutive month, reaching $25 billion at the end of July; in real terms (deflated by home prices), the commitments backlog recovered to about the March level but remained a fourth below the recent highs of last fall. By early September, the proportion of S&Ls reporting mortgage funds in short supply relative to normal seasonal patterns (FHLMC survey) had fallen to 60 percent--the lowest ratio since the spring of 1979.

Average interest rates on new commitments for conventional home loans at S&Ls, which bottomed out in July, have risen by about 3/4 of a percentage point since early August. Mortgage rates increased in all areas of the country; in the West, the average rose by 1-1/4 percentage points to 13-1/2 percent. Mortgage yields in the secondary markets, which turned up in mid-June along with bond rates, also have risen markedly in recent weeks. With government-underwritten home loans and GNMA-guaranteed passthrough securities selling at deep discounts in the secondary markets, the Administration raised the ceiling for VA-guaranteed as well as for level-payment FHA-insured home loans by 1/2 percentage point to 12 percent, effective August 20.[1] Even so, discounts in the secondary markets were nearly 10 points in early September, posing substantial problems for borrowers and originators of FHA/VA loans (primarily mortgage companies) and for sellers and builders of homes financed by these credits.

Consumer Credit

Consumer installment credit outstanding contracted during July for the fourth consecutive month. However, it declined at only a 2-1/2 percent annual rate, compared with more than 13 percent during May and June. New extensions of installment credit rebounded during July, perhaps partly a result of the Board's announcement on July 3 that the program of special restraints on consumer credit was ending.

Finance rates on selected types of consumer credit at commercial banks were from 1 to 2 percentage points lower during early August than in May. Similarly, interest rates at major auto finance companies began to come down during July after reaching a series high in June. Data from the latest Senior Bank Loan Officer Opinion Survey suggested greater bank willingness to extend consumer installment loans in August than in May.

1. For the first time, a separate ceiling (12-1/2 percent) was established for FHA-insured graduated-payment home loans.

CONSUMER INSTALLMENT CREDIT[1]

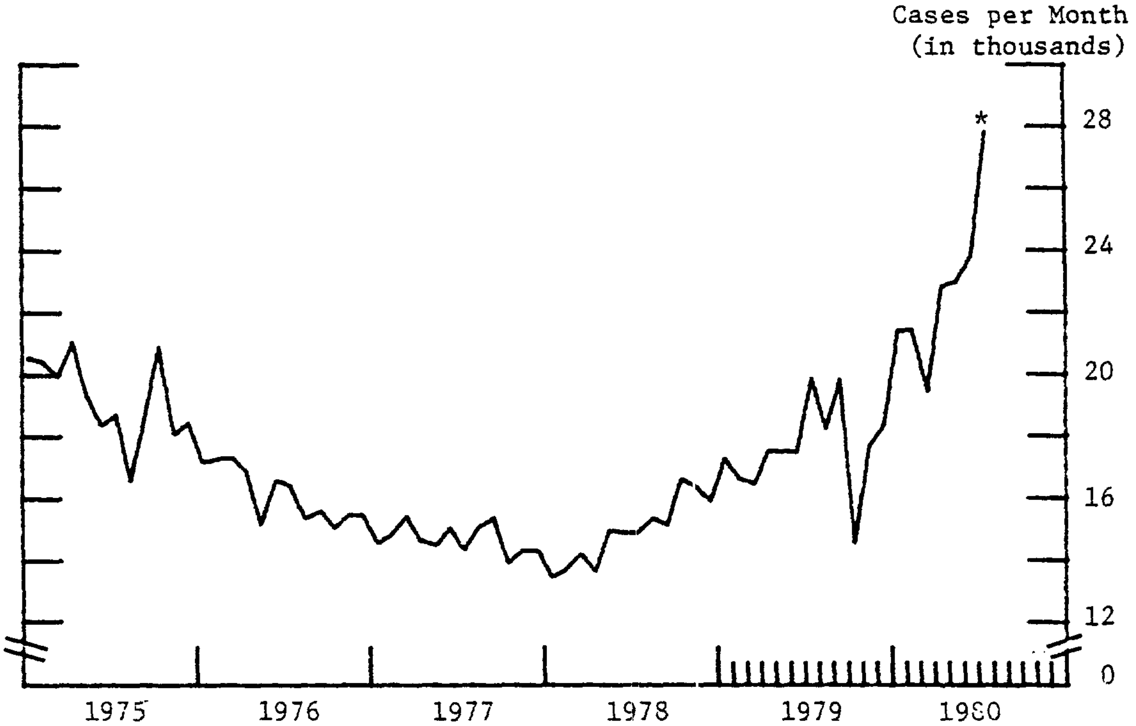
	1978	1979	1980 Q2	1980 May	1980 June	1980 July
Total						
Change in outstandings						
Billions of dollars	44.8	35.5	-35.5	-41.2	-41.6	-7.3
Percent	19.4	12.9	-11.4	-13.3	-13.6	-2.4
Bank share (percent)	53.1	37.8	83.2	72.7	76.8	159.6
Extensions						
Billions of dollars	298.4	322.6	257.9	254.9	248.4	294.0
Bank share (percent)	47.8	46.4	41.4	41.5	41.4	43.1
Liquidations						
Billions of dollars	253.5	287.1	293.5	296.1	289.9	301.3
Ratio to disposable income (percent)	17.4	17.7	16.7	16.9	16.4	16.8
Automobile credit						
Change in outstandings						
Billions of dollars	19.6	12.6	-14.9	-16.1	-20.9	-1.1
Percent	23.6	12.3	-12.7	-13.8	-18.1	-1.0
Extensions						
Billions of dollars	89.0	91.9	62.8	62.3	57.2	79.3
Revolving credit						
Change in outstandings						
Billions of dollars	7.8	8.1	-6.5	-5.8	-9.0	0.2
Percent	20.7	17.9	12.1	-11.0	-17.0	0.3
Extensions						
Billions of dollars	104.6	120.8	120.1	121.1	115.6	126.3

1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.

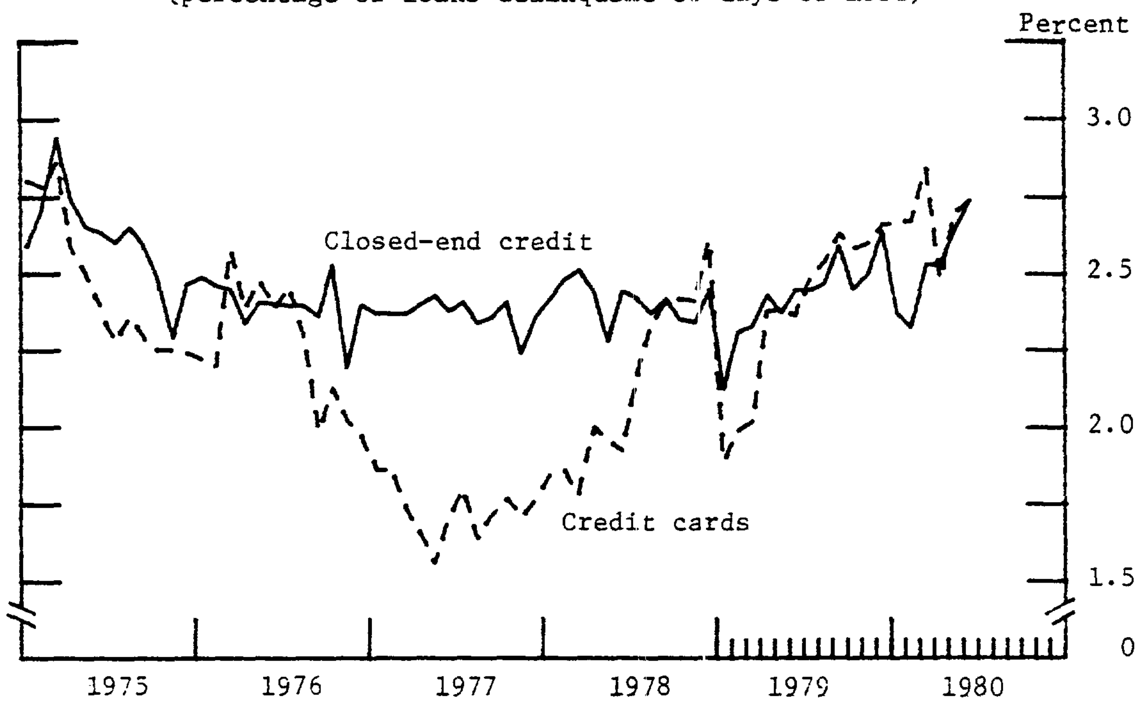
Indicators of household repayment difficulties continued to climb through mid-summer. The number of personal bankruptcy cases filed reached a new high during July (see upper panel of chart on page III-18), continuing a 2-1/2 year uptrend that has accelerated this year under the impact of recession and a revised federal bankruptcy statute more favorable to debtors. By the end of June, installment loan delinquency rates at commercial banks had risen to levels only slightly below the highs reached in early 1975 (see lower panel of chart on page III-18).

The overall financial standing of the consumer sector nevertheless has improved somewhat in other respects, judging from measures of household income and balance sheet positions. Since last fall, the aggregate burden of repayments of mortgage and consumer installment credit has dropped relative to disposable personal income. At the same time, real financial net worth per capita in the household sector has risen marginally, under economic conditions when it usually falls.

PERSONAL BANKRUPTCIES
(seasonally adjusted)



COMMERCIAL BANK INSTALLMENT CREDIT DELINQUENCY RATES
(percentage of loans delinquent 30 days or more)



*July data preliminary.

APPENDIX A

THE SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES*

Responses to the August 15th Senior Loan Officer Opinion Survey on Banking Lending Practices indicate a shift toward somewhat greater willingness to lend and toward some easing of non-price terms on business loans since mid-May, after declines in willingness and tightening of non-price terms reported in several preceding surveys. In part, this shift may have reflected the System's phase-out of both the marginal reserve requirement on managed liabilities and the supplemental reserve requirement on large time deposits, which reduced the cost of funds to banks, and the end of both the voluntary bank credit growth guidelines and the special deposit requirements on increases in certain types of consumer credit. At the time of the survey, market interest rates were at about their levels of mid-May, although they had dropped below those levels between survey dates. Over the same period, the prime rate declined more than 5 percentage points, and the spread between the prime and the commercial paper rate, which was extraordinarily wide at the time of the previous survey, returned to more typical levels.

With the relative cost of bank credit declining and some non-price terms easing, seasonally adjusted business loans resumed robust growth by August after running off in the second quarter. Nevertheless, almost one-half of the 120 respondents to the August survey reported an easing of business loan demand since mid-May, while only 10 percent reported a strengthening.[1] On the other hand, the proportion of respondents expecting weaker demand over the three months following the survey date declined from two-thirds to one-quarter, and the fraction expecting stronger demand rose somewhat.

For the first time since February 1978, respondents evinced somewhat greater willingness to make short-term fixed-rate loans. However, continued uncertainty regarding long-run interest rate trends likely prompted the further decline in respondents' willingness to offer fixed rates on long-term loans.

A substantial minority of respondents reduced their compensating balance requirements between surveys, while only a few increased them; in contrast, earlier surveys indicated firmer or unchanged requirements. Similarly, in August respondents on balance reported a slight easing of standards to qualify for the prime rate or for a given spread above prime, breaking the trend toward tighter standards.

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* Prepared by Warren T. Trepeta, Economist, Banking Section, Division of Research and Statistics.

1. Although the bulk of the August expansion in business loans occurred early in the month, at the time of the survey banks may have discounted this development as a temporary aberration.

Whereas respondents had reported stiffening their lending policies toward new and nonlocal customers in earlier surveys, in August they indicated an easier stance, especially toward new applicants. In addition, about one-fifth of respondents relaxed criteria applied to established and local customers; these criteria had remained virtually unchanged for quite some time.

Almost half of the respondents to the August survey indicated greater willingness to make consumer installment loans, a substantial swing from May, when about two-thirds indicated decreased willingness to make such loans. Several respondents indicated that this shift was prompted by the elimination of the special deposit requirement on increases in covered consumer credit. On balance, respondents expressed somewhat greater willingness to make most other types of loans, particularly secured construction and land-development loans and participation loans with correspondents. Exceptions, involving unchanged or slightly reduced willingness, included residential mortgages and business loans with maturities exceeding five years.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.
(STATUS OF POLICY ON AUGUST 15, 1980 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

L O A N   D E M A N D

STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL BANKS ANSWERING
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
1. COMPARED TO THREE MONTHS EARLIER	0	0.0	12	10.0	51	42.5	49	40.9	8	6.7	120
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	0	0.0	19	15.9	73	60.9	25	20.9	3	2.5	120

I N T E R E S T   R A T E   P O L I C Y

STANDARDS OF CREDIT WORTHINESS:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
3. TO QUALIFY FOR PRIME RATE	0	0.0	4	3.4	101	84.2	15	12.5	0	0.0	120
4. TO QUALIFY FOR SPREAD ABOVE PRIME	0	0.0	4	3.4	95	79.2	21	17.5	0	0.0	120

WILLINGNESS TO MAKE FIXED RATE LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
5. SHORT-TERM (UNDER ONE YEAR)	4	3.4	19	15.9	84	70.0	10	8.4	3	2.5	120
6. LONG-TERM (ONE YEAR OR LONGER)	0	0.0	9	7.5	82	68.4	12	10.0	17	14.2	120

C R E D I T   A V A I L A B I L I T Y
A N D   N O N P R I C E   T E R M S

REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
7. ESTABLISHED CUSTOMERS	0	0.0	1	0.9	96	80.0	23	19.2	0	0.0	120
8. NEW CUSTOMERS	0	0.0	7	5.9	74	61.7	36	30.0	3	2.5	120
9. LOCAL SERVICE AREA CUSTOMERS	0	0.0	1	0.9	94	79.0	23	19.4	1	0.9	119
10. NONLOCAL SERVICE AREA CUSTOMERS	1	0.9	8	6.8	87	73.2	20	16.9	3	2.6	119
COMPENSATING BALANCE REQUIREMENTS FOR:											
11. COMMERCIAL & INDUSTRIAL LOANS	0	0.0	7	5.9	81	67.5	32	26.7	0	0.0	120
12. LOANS TO FINANCE COMPANIES	1	0.9	3	2.5	107	89.2	8	6.7	1	0.9	120

WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
13. SECURED CONSTRUCTION & LAND DVLPMNT	1	0.9	26	21.7	87	72.5	3	2.5	3	2.5	120
SECURED REAL ESTATE LOANS:											
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0.0	14	11.9	94	79.7	6	5.1	4	3.4	118
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	5	4.4	100	87.0	7	6.1	3	2.7	115
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	14	11.7	98	81.7	6	5.0	2	1.7	120
17. INSTALLMENT LOANS TO INDIVIDUALS	5	4.3	50	42.1	59	49.6	4	3.4	1	0.9	119
COMMERCIAL AND INDUSTRIAL LOANS OF:											
18. 1-5 YEARS MATURITY	2	1.7	19	15.9	96	80.0	3	2.5	0	0.0	120
19. OVER 5 YEARS MATURITY	2	1.7	10	8.4	96	80.0	9	7.5	3	2.5	120
20. LOANS TO FINANCE COMPANIES	1	0.9	10	8.4	106	88.4	3	2.5	0	0.0	120
21. LOANS TO SECURITIES BROKERS & DEALERS	2	1.7	16	13.5	97	81.6	3	2.6	1	0.9	119
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	2	1.7	24	20.0	93	77.5	1	0.9	0	0.0	120

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DOMESTIC ASSETS
(STATUS OF POLICY ON AUGUST 15, 1980 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS ANSWERING EACH QUESTION AS PERCENT OF TOTAL NUMBER OF BANKS ANSWERING QUESTION)

SIZE OF BANK — TOTAL DOMESTIC ASSETS IN BILLIONS 1/

LOAN DEMAND	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER		TOTAL	
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
1. COMPARED TO THREE MONTHS EARLIER	0	0	0	12	67	36	29	44	4	7	100	100
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	0	0	17	16	71	58	12	23	0	3	100	100

INTEREST RATE POLICY	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL	
STANDARDS OF CREDIT WORTHINESS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
3. TO QUALIFY FOR PRIME RATE	0	0	0	4	92	82	8	14	0	0	100	100
4. TO QUALIFY FOR SPREAD ABOVE PRIME	0	0	0	4	96	75	4	21	0	0	100	100

	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL	
WILLINGNESS TO MAKE FIXED RATE LOANS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
5. SHORT-TERM (UNDER ONE YEAR)	8	2	17	16	75	69	0	10	0	3	100	100
6. LONG-TERM (ONE YEAR OR LONGER)	0	0	12	6	75	67	8	10	4	17	100	100

CREDIT AVAILABILITY AND NONPRICE TERMS	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL	
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
7. ESTABLISHED CUSTOMERS	0	0	0	1	83	79	17	20	0	0	100	100
8. NEW CUSTOMERS	0	0	0	7	67	60	25	31	8	1	100	100
9. LOCAL SERVICE AREA CUSTOMERS	0	0	0	1	78	79	22	19	0	1	100	10
10. NONLOCAL SERVICE AREA CUSTOMERS	0	1	0	8	83	71	9	19	9	1	100	10
COMPENSATING BALANCE REQUIREMENTS FOR:												
11. COMMERCIAL & INDUSTRIAL LOANS	0	0	4	6	67	68	29	26	0	0	100	100
12. LOANS TO FINANCE COMPANIES	0	1	4	2	92	89	4	7	0	1	100	100

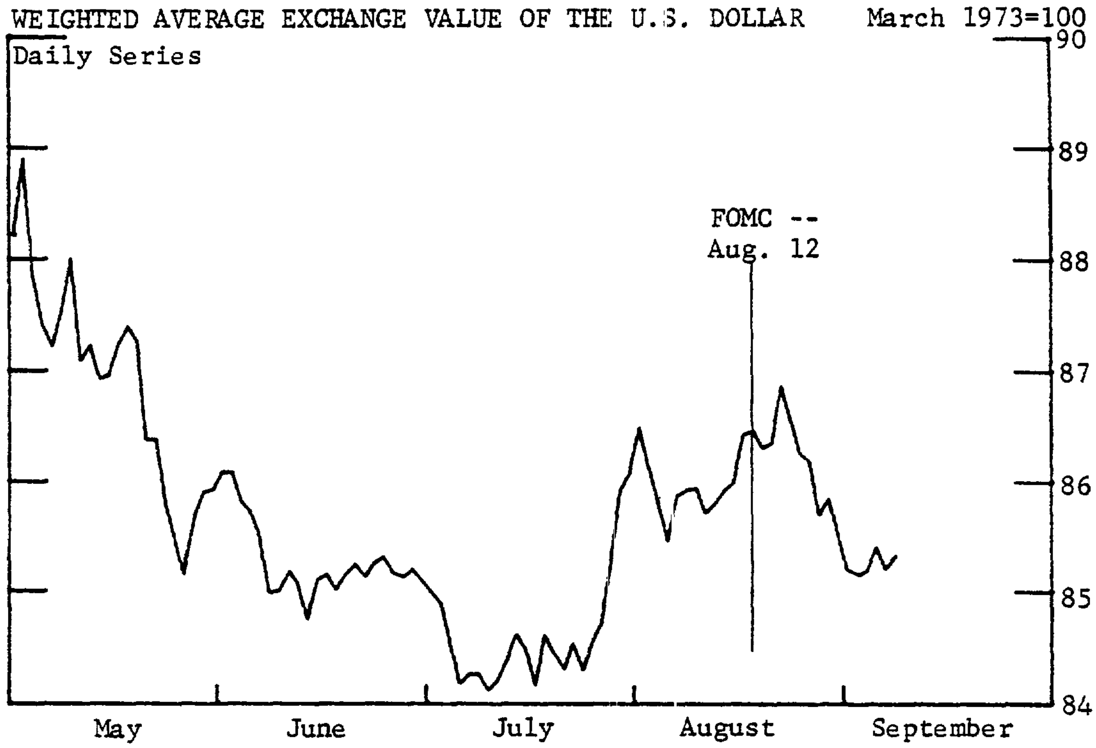
	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL	
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
13. SECURED CONSTRUCTION & LAND DVLPMNT	4	0	17	23	75	72	4	2	0	3	100	100
SECURED REAL ESTATE LOANS:												
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0	13	12	78	80	9	4	0	4	100	100
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0	14	2	81	88	5	6	0	3	100	100
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0	8	12	87	80	4	5	0	2	100	100
17. INSTALLMENT LOANS TO INDIVIDUALS	13	2	39	43	48	50	0	4	0	1	100	100
COMMERCIAL AND INDUSTRIAL LOANS OF:												
18. 1-5 YEARS MATURITY	4	1	4	19	92	77	0	3	0	0	100	100
19. OVER 5 YEARS MATURITY	4	1	8	8	83	79	4	8	0	3	100	100
20. LOANS TO FINANCE COMPANIES	0	1	8	8	92	87	0	3	0	0	100	100
21. LOANS TO SECURITIES BROKERS & DEALERS	0	2	25	11	71	84	4	2	0	1	100	100
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	2	25	19	75	78	0	1	0	0	100	100

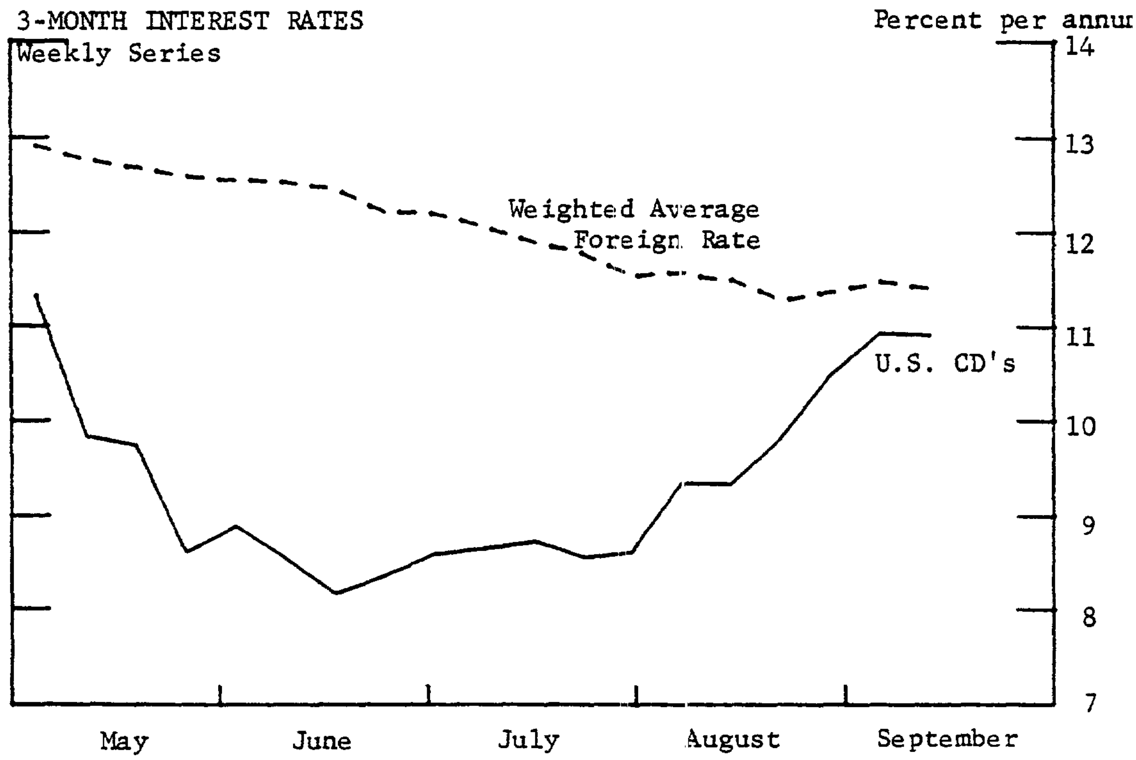
1/ AS OF SEPT. 30, 1979 , THERE WERE 21 BANKS HAVING DOMESTIC ASSETS OF $5 BILLION OR MORE. THEIR COMBINED DOMESTIC ASSETS, IN BILLIONS, TOTALLED $325, COMPARED TO $511 FOR THE ENTIRE PANEL OF REPORTING BANKS AND $1198 FOR ALL INSURED COMMERCIAL BA

Foreign exchange markets

The dollar has fluctuated in a fairly narrow range since the last Greenbook. As the top panel of the chart on the following page indicates, the dollar's weighted-average value has declined by 1/2 percent over this five-week interval. Against most individual currencies the dollar has in fact appreciated by amounts ranging from 1/2 percent to 1 percent; its decline on the weighted-average basis was mainly a consequence of strong performances by the Japanese yen and the pound sterling. The yen appreciated by almost 4-1/4 percent during this period. Sterling rose by 2 percent, and in early September reached the $2.42 level, its highest rate since early 1975, before dropping back somewhat.

Exchange market participants focussed mainly on current and prospective interest-rate developments during the inter-meeting period. As shown on the bottom panel of the chart, U.S. three-month rates generally moved upwards, and the weighted-average of rates in foreign centers generally eased downwards, with the gap between them closing somewhat further. However, the mid-August announcement of a large increase in the money supply, indications that U.S. economic activity may be recovering and high producer price figures appear to have led to some worsening in market sentiment about the U.S. inflation outlook. Exchange markets have watched the federal funds and other interest rates closely to discern Federal Reserve policy. While nominal interest rates have continued to rise, market


WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR
March 1973=100
Daily Series
FOMC --
Aug. 12
90
89
88
87
86
85
84
May
June
July
August
September


3-MONTH INTEREST RATES
Percent per annum
Weekly Series
Weighted Average
Foreign Rate
U.S. CD's
14
13
12
11
10
9
8
7
May
June
July
August
September

participants appear to be skeptical whether these increases are enough to hold real interest rates steady.

In general the dollar has risen slightly or held steady against those foreign currencies, such as the German mark, Canadian dollar, and French franc, where dollar interest rates have risen relative to the foreign level. The strong upward surge in the pound sterling may be partly attributable to a recent firming of U.K. interest rates, but also seems to be a consequence of certain oil-related developments and renewed Middle East interest in sterling-denominated assets. In the period since the last Greenbook Japanese interest rates have eased -- for instance, the discount rate was lowered in mid-August -- but by less than the market was reportedly expecting. The appreciation of the yen has been attributed mainly to increased purchases of yen assets by OPEC countries.

. The French franc was at the top of the EMS alignment for much of this period, but more recently has been displaced by the Netherlands guilder and Irish punt. There are persistent rumors that an EMS realignment will take place before the end of the year, probably after the German elections in October.

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The Desk purchased a little over $730 million equivalent of foreign currencies since the last Greenbook, of which about $670 million equivalent was German marks, around $50 million equivalent was French francs, and the remaining $10 million equivalent was Swiss francs.

. The System's share of the mark purchases came to $400 million equivalent. During this period the System repaid $424 million equivalent in swap debt with the Bundesbank, leaving $409 million equivalent in outstanding swap drawings. The French franc purchases were used by the System to repay swap debt with the Bank of France, and $112 million equivalent now remains outstanding on this line. The Swiss franc purchases were added to balances.

<u>OPEC surpluses and investment flows</u>. The OPEC current-account surplus increased substantially further to an estimated $61 billion in the first half of 1980, compared with $24 billion in the first half of 1979 and $41 billion in the second. Oil exports of $142 billion in the first half of this year were up 75 percent from a year earlier and 18 percent from the last half of 1979, reflecting increases in average OPEC official oil prices of 91 percent and 35 percent, respectively, and declines in export volume. OPEC imports, which were almost unchanged in 1979, began to increase again this year, and in the first six months are estimated to have been 50 percent higher than in the year-earlier period. OPEC net payments for services and private and official transfers are believed to have continued to rise. However, in absolute terms the increase in OPEC imports and net payments for current invisibles in the first half, relative to a year earlier, was only $24 billion, compared with a $63 billion rise in OPEC exports.

OPEC investments in the United States in the first half of this year came to about $9 billion; last year there was net disinvestment of nearly $1 billion in the United States in the first half and net inflows of close to $8 billion in the second (despite the Iranian crisis). The identified direct flows to the United States in the first half of 1980 equalled about 15 percent of the OPEC current account surplus in the period, a somewhat higher percentage than for last year as a whole but lower than for the second half of last year. About two-thirds of the total flow to the United States so far this year has been into longer-term securities, including Treasury bonds and notes ($4.4 billion), other

ESTIMATES OF OPEC CURRENT ACCOUNT AND EXTERNAL INVESTMENTS
(Billions of dollars)

	1978	1979		1980		
	Year	Year	1st H	1st H	Q-1	Q-2
Current account						
1. Exports	141	213	86	149	74	75
(Oil)	(130)	(201)	(81)	(142)	(71)	(71)
(Non-oil)	(11)	(12)	(5)	(7)	(3)	(4)
2. Imports	100	101	41	62	30	32
3. Trade balance (1-2)	41	112	45	87	44	43
4. Net services and private transfers	-36	-42	-19	-24	-12	-12
5. Public transfers	-3	-5	-2	-2	-1	-1
6. Current account balance (3 + 4 + 5)	2	65	24	61	31	30
External investments						
1. In United States	.3	7.0	-.9	9.1[1]	2.8	6.3[1]
a. Treas. bills & bank liabilities	-.2	8.2	.9	3.6	.5	3.1
b. Other securities	.1	*	-1.6	6.0	2.8	3.2
c. Other[2]	.4	-1.3	-.2	-.5[1]	-.5	0[1]
2. In United Kingdom	.2	2.4	1.0	2.6	1.9	.7
a. Liquid sterling assets	.1	1.8	.8	2.5	1.8	.7
b. Other	.1	.6	.2	.1	.1	0
3. In Germany (long-term)	.6	.9	.1	3.1[1]	2.5	.6[1]
a. Private sector	1.0	1.0	.1	1.2[1]	.6	.6[1]
b. Public sector	-.4	*	*	1.9[1]	1.9	*[1]
4. In Eurocurrency market[3]	3.0	31.2	4.4	23.4[1]	12.4	11.0[1]
5. Int'l. organizations	.1	-.4	-.3	1.0	.7	.3
Subtotal	4.2	41.1	4.3	39.2	20.3	18.9
6. Other investments plus net borrowings[4]	-2.2	23.9	19.7	21.8	10.7	11.1

Note: Numbers may not add to totals because of rounding.
1. Staff estimate.
2. Liabilities of nonbanks, non-security liabilities of the U.S. Government, and direct investment.
3. Including domestic currency bank deposits in countries outside United States and United Kingdom.
4. Including credit to oil companies reflecting payments lag.
* Less than $0.5 billion.

bonds ($1.3 billion) and stocks ($0.2 billion), and all of the remainder has gone into Treasury bills and bank liabilities. This was in contrast to the pattern for the year 1979, when net liquidations of Treasury bonds and notes ($1.1 billion) offset modest purchases of other bonds ($0.4 billion) and stocks ($0.6 billion). Most of the movement in the "other" category (see table) in the past 18 months has reflected declines in U.S. Government liabilities other than securities, e.g., against military sales contrasts; these fell $1 billion in 1979 and $0.3 billion in the first quarter of 1980.

OPEC investments in the United Kingdom increased to $2.6 billion in the first half of 1980, somewhat more than in the entire year 1979. These investments, which were mainly concentrated in the first quarter, consisted primarily of purchases of Government bonds ($0.9 billion) and additions to sterling deposits ($1.4 billion). In Germany, long-term (over one year) investments by OPEC countries in the first quarter of this year amounted to $2.5 billion, the main element of which was a DM 3 billion ($1.7 billion) Saudi Arabian purchase of a special issue of Government bonds in March. Long-term OPEC flows to the German private sector in the first quarter were very largely in the form of credits and loans, amounting to $0.5 billion, while such flows in 1978 and 1979 ($1 billion in each year) also included considerable amounts of direct investment and portfolio investment. The flow to Germany was probably substantially smaller in the second quarter.

The largest OPEC investment flow in the first quarter was $12.4 billion into the Eurocurrency market, an amount $1 billion less than the quarterly average in the second half of 1979. This flow may have diminished in the second quarter. About $22 billion, or slightly more than one-third of the estimated current account surplus, may have flowed into unidentified assets in the first half of the year. Some of this flow is known to have been to Japan. In the third quarter, reports suggest strongly that the flow to Japan became much larger; however, there are no official statistics and market reports do not give a complete picture.

U.S. International Transactions

In July, the U.S. merchandise trade deficit was significantly smaller than in June and below recent quarterly averages. While exports were essentially unchanged from the annual rate in the second quarter, imports declined by $26 billion (see table on next page).

A sharp drop in the volume of oil imports accounted for virtually all of the change in imports. The volume of imported oil dropped by over 25 per cent compared to the second quarter average (see table). While part of the sharp swing may be due to the high volatility of monthly data, the July decline also reflected a leveling off in seasonally adjusted petroleum stocks that began in June as well as a continued reduction in consumption because of the recession and higher prices. The unit value for petroleum imports has increased just over 2 per cent since April. Although average OPEC crude oil contract price increases of 8 per cent occurred during May and June, a small decline in the price of petroleum products (20 percent of petroleum imports) has offset much of the effect of these increases on the average oil import unit value.

Oil Imports*
(seasonally adjusted)

	Volume (Mil. barrels/day)	Price ($/BBL)	Value (Bil. $ AR)
1980 - 1	8.42	28.06	86.4
2	7.44	30.85	84.0
April	6.43	30.59	72.0
May	8.24	30.94	93.3
June	7.55	31.01	85.7
July	5.51	31.34	63.1

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

U.S. Merchandise Trade[1/]
(in billions of dollars, seasonally adjusted annual rates)

		1979		1980			
	Year	3Q	4Q	1Q	2Q	June*	July*[3/]
EXPORTS	182.1	188.8	200.9	218.8	219.2	219.0	219.9
Agric.	35.4	37.5	41.7	41.5	38.8	38.1	40.1
Nonagric.	146.6	151.3	159.2	177.3	180.4	181.0	179.8
IMPORTS	211.5	217.0	237.8	262.3	249.3	247.0	223.2
Oil	60.0	64.4	75.4	86.4	84.0	86.0	63.1
Nonoil	151.5	152.7	162.4	175.9	165.3	161.0	160.0
BALANCE	-29.5	-28.2	-36.9	-43.5	-30.1	-28.0	-3.3
Memo:[2/] Census Basis Balance	-24.7	-25.1	-27.6	-40.3	-19.8	-15.0	-11.0

1/ International Account basis.

2/ International accounts basis data differ in magnitude from press release Census basis data (f.a.s. value), but the direction of the month-to-month changes are generally consistent.

3/ While international account basis deficits are generally larger than Census basis deficits (primarily because Census data exclude oil imports into the U.S. Virgin Islands), occasionally differing seasonal factors for separate commodities cause the International Accounts deficit to be smaller. This happened in January and July 1980.

* Monthly international accounts basis data are subject to considerable revision.

Non-oil imports were about unchanged from June levels but were about 3 per cent lower than the second quarter average. Imports of industrial supplies eased during recent months, particularly paper, textile supplies, chemicals, steel and nonferrous metals. For steel, a reduction in volume more than offset rising prices. These declines were partly offset by increases in imports of cars and trucks. About half of the automotive rise was in prices. The volume of new car imports has just kept ahead of sales as U.S. dealers worked to replenish their very low stock positions. While in July foreign car sales jumped up strongly, in August sales have dropped back to second quarter rates.

The increase in agricultural exports in July was concentrated in higher volumes of wheat and soybeans. The value of nonagricultural exports in July was about the same as in the second quarter, with declines in industrial supplies being offset by increases in capital goods, consumer goods, and automotive exports.

In international financial transactions, the outflow of funds through banks that has been underway since spring continued through late August, though at a somewhat reduced rate. As shown in the accompanying table, banking offices in the United States reduced their net Eurodollar borrowings by more than $3 billion, on a daily average basis, between June and July, and partial data for August indicate further reductions. This outflow of funds has been occurring as foreign demands for bank credit (from both industrial countries and developing countries) have remained strong relative to domestic credit demand.

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

	1979 Q-3	1979 Q-4	1980 Q-1	1980 Q-2	1980 Apr.	1980 May	1980 June	1980 July	1980 Aug. p/
Total net Eurodollar borrowings	32.4	32.4	30.1	21.7	26.8	23.2	15.1	11.7	n.a.
- Domestic-chartered banks' net position with own foreign offices	8.1	9.0	7.3	1.2	6.0	2.7	-5.2	-8.1	-9.6
- Foreign-related banks' net position with directly related institutions	24.3	23.4	22.8	20.5	20.9	20.5	20.2	19.8	n.a.

Eurodollar CDs issued by the London branches of U.S. banks have fallen slightly between mid-April and mid-July after a year of rapid increase (see table). Over the previous year, such deposits had grown rapidly as their yield advantage over domestic money market instruments induced investment by U.S. purchasers (including money market mutual funds). As interest rates declined during the second quarter, the yield advantage of reserve free offshore deposits decreased.

Eurodollar CDs of Banking Offices in the United Kingdom
(billions of dollars, mid-month)

	1979			1980		
	April	July	Oct.	Jan.	April	July
U.S. banks	14.6	17.9	24.9	26.1	29.3	28.0
All other banks	13.5	14.3	16.5	17.6	19.2	20.9
Memo: Domestic Negotiable CDs of Weekly Reporting Banks	87.5	80.9	89.7	92.4	94.2	90.0

During the second quarter of this year, when the prime rate was unusually high relative to market rates, corporate treasurers exercised their options under commitments and borrowed at the Euro-dollar rate. A 10 per cent reduction in foreign branch loans to U.S. residents in recent weeks appears to reflect the narrowing of the differential between the prime rate and other interesting rates.

Foreign official reserve assets (excluding those of the OPEC countries) in the United States rose by $5.8 billion during June and July. Most of this increase was accounted for by Japan ($2.1 billion). Germany ($1.8 billion), and Belgium ($1.2 billion). During August there were large day-to-day changes in German official holdings in the United States. These swings were related to four mark-dollar swaps by the Bundesbank with German commercial banks. These swaps were designed to influence domestic liquidity conditions within Germany and did not alter the foreign currency position of the Bundesbank.

OPEC reserve holdings in the United States rose by $3 billion during June and July. This increase brought to $7.3 billion the cumulative increase in OPEC reserve holdings in the United States in 1980. Of this increase, some $800 million represents the investment of one OPEC country, through private placements, in 3-7 year notes of U.S. corporate borrowers. In addition, OPEC reserve holdings at the FRB-NY rose by almost $2 billion in August.

The bulge in the second quarter of "all other transactions and statistical discrepancy" (line 21 in the U.S. International Transactions table) probably reflects a surge in capital transactions for which we will not receive data. However, at least in part, it reflects certain unusual transactions that will be recorded in the complete balance of payments accounts for the second quarter when they are released later this month. In particular, the loan to Ford by its German subsidiary ($500 million), the completion of the Saudi Arabia purchase of Aramco ($1.5 - $2 billion) and the increase in foreign branch loans to U.S. nonbank residents ($2 billion) are the types of unusual financing activity that are likely to be reported. However, the unexplained capital inflow will remain large by historical standards.

RESTRICTED

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

		1978 Year	1979 Year	1979 QIII	1979 QIV	1980 QI	1980 QII	1980 May	1980 June	1980 July
1.	Trade Balance 1/	-33,759	-29,469	-7,060	-9,225	-10,875	-7,525	-3,927	-2,331	-277
2.	Merchandise exports	142,054	182,055	47,798	50,237	54,708	54,796	18,083	18,253	18,322
3.	Merchandise imports	-175,873	-211,524	-54,258	59,462	65,583	62,321	22,010	20,584	18,599
4.	Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-15,403	14,767	657	-5,016	8,975	-22,905	-6,524	-9,880	-2,952
	Through interbank transactions with									
5.	a) Own offices in foreign countries	4,702	20,733	8,297	-9,107	7,119	-18,628	-4,365	-10,017	-1,618
6.	b) Unaffiliated banking offices in foreign countries	-4,725	3,783	-2,321	6,442	2,788	-1,854	-1,386	742	1,147
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase,-)	-16,456	-12,002	-5,282	-3,664	-394	-3,372	-548	-2,480	-1,460
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,076	2,253	-19	1,313	-537	950	-225	1,876	-1,020
9.	Private securities transactions, net (excl. U.S. Treas. Oblig.)	-909	-3,445	-1,977	-958	1,585	-700	-493	-466	609
10.	Foreign net purchases of U.S. corp. bonds	929	274	16	8	351	217	-58	111	135
11.	Foreign net purchases of U.S. corp. stocks	1,689	1,037	144	193	1,999	408	56	204	175
12.	U.S. net purchases (-) of foreign securities	-3,527	-4,756	-2,137	-1,159	-765	-1,325	-491	-781	299
13.	Foreign net purchases of U.S. Treasury obligations 2/	2,269	3,713	1,465	-198	3,278	-1,227	-1,451	968	-463
14.	Change in foreign official reserve assets in U.S. (inc. by area)	31,238	-13,123	5,606	-472	-7,397	6,782	2,962	5,391	3,392
	By Area									
15.	G-10 countries and Switzerland	29,726	-21,151	4,806	-7,232	-10,689	1,211	1,724	2,908	2,562
16.	OPEC	-1,170	6,523	1,595	6,023	3,262	4,023	440	2,917	191
17.	All other countries	2,682	1,505	-795	737	31	1,548	798	-434	639
	By Type									
18.	U.S. Treasury securities	23,324	-17,974	6,181	-3,609	-4,753	5,146	2,591	4,894	2,639
19.	Other 3/	7,914	4,851	-575	3,137	-2,643	1,636	371	494	953
20.	Change in U.S. reserve assets (increase -)	662	-306	2,711	-399	-2,535 4/	-452	-273	-26	98
21.	All other transactions and statistical discrepancy	15,902	27,835	-1,420	16,268	6,969	26,027	9,706	6,344	-407
MEMO:	Current Account (bil. $ seasonally adj. annual rates)	-14.3	-.8	-6.0	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. The external accounts of the major foreign industrial countries continue to reflect the effects of the 1979 oil-price increases. In four of the six major foreign industrial countries, the annualized (and seasonally adjusted) trade balances for the first half of 1980 were substantially less than their 1979 trade balances. In France and Italy, the negative shifts have been particularly dramatic -- some $11-12 billion. In Japan and Germany, the shifts also have been quite large -- about $8 billion and $3 billion, respectively. Where available, the data for July indicate that this weakness in external accounts has continued. Of the six major foreign countries, only the United Kingdom and Canada have experienced a strengthening in their trade balances this year, and these two countries represent the two major foreign industrial countries that are largely independent of (net) oil imports. These two countries also have experienced substantially slower growth in real GDP than have most of their major trading partners.

The developments in the external accounts have occurred within the context of a general pattern of weakening economic activity in the second quarter along with some evidence of a deceleration in inflation rates. In each of the major foreign industrial countries other than Japan, industrial production (s.a.) fell in the second quarter of 1980, and in Japan it increased only 0.2 percent. The smaller industrial countries exhibit fewer signs of weakness, but there are some indications that economic activity is slowing in these countries as well.

Individual Country Notes. In recent weeks, signs of a significant slowdown in activity in Japan have become increasingly evident. Newly released national income statistics revealed that real GNP rose by only

2.5 percent (s.a.a.r.) in the second quarter, well below both the 7.2 percent rate achieved in the first quarter and the government's official target rate of 4.8 percent for the fiscal year beginning in the second quarter of 1980. Although exports and private fixed investment provided some strength to the economy, private consumption remained virtually flat during the quarter, while government expenditure fell by 2.5 percent. These trends appear to have continued into the third quarter. Industrial production declined slightly in July; the average for the three months ending in July is below that for the previous three months by almost 2 percent (s.a.).

Recent price developments continue to show an easing of inflationary pressure. The wholesale price index in the three months since April has moved upward only marginally, while the August CPI declined by 0.2 percent.

In reaction to the weakening economy, the government announced on September 5 a modest package of measures intended to stimulate the economy, including a step-up in the phasing of government expenditure. This followed the 0.75 percentage point reduction in the Japanese discount rate announced on August 19.

The current-account deficit (s.a.) expanded slightly in July to $1.5 billion, as exports (in dollar terms) contracted somewhat more rapidly than did imports. The cumulative current-account deficit for the first seven months is almost $11 billion. In part because of slower growth in Japan's export markets, export volume seems to have slowed somewhat from its remarkable pace of 8.5 percent, s.a., in the second quarter, but, nevertheless, export volume still appears to be moving ahead strongly.