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Confidential (FR) Class II FOMC

September 30, 1981

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.	9-4-81	106.6	1.6	-3.0	1.6
Unemployment rate (%) 1/	Aug.	9-4-81	7.2	7.0	7.6	7.6
Insured unemployment rate (%) 1/	Aug.	9-15-81	3.4	3.2	3.4	4.3
Nonfarm employment, payroll (mil.)	Aug.	9-4-81	92.0	.8	2.0	2.0
Manufacturing	Aug.	9-4-81	20.5	-1.9	2.0	2.6
Nonmanufacturing	Aug.	9-4-81	71.5	1.6	2.0	1.8
Private nonfarm:						
Average weekly hours (hr.) 1/	Aug.	9-4-81	35.3	35.2	35.3	35.2
Hourly earnings ($) 1/	Aug.	9-4-81	7.30	7.24	7.17	6.67
Manufacturing:						
Average weekly hours (hr.) 1/	Aug.	9-4-81	40.1	40.0	40.3	39.5
Unit labor cost (1967=100)	Aug.	9-30-81	212.1	14.9	8.9	5.3
Industrial production (1967=100)	Aug.	9-16-81	152.8	-4.7	.3	7.5
Consumer goods	Aug.	9-16-81	148.5	-12.0	-5.8	3.9
Business equipment	Aug.	9-16-81	185.4	5.9	7.5	8.4
Defense & space equipment	Aug.	9-16-81	102.9	5.9	3.5	5.3
Materials	Aug.	9-16-81	154.3	-5.4	2.3	11.2
Consumer prices all items (1967=100)	Aug.	9-24-81	275.8	10.1	11.0	10.8
All items, excluding food & energy	Aug.	9-24-81	261.3	10.7	13.6	11.5
Food	Aug.	9-24-81	275.9	9.2	7.2	7.1
Producer prices: (1967=100)						
Finished goods	Aug.	9-4-81	271.8	3.5	5.2	7.9
Intermediate materials, nonfood	Aug.	9-4-81	313.4	5.0	4.6	10.0
Crude foodstuffs & feedstuffs	Aug.	9-4-81	262.0	-11.3	8.4	-5.3
Personal income ($ bil.) 2/	Aug.	9-17-81	2,445.8	13.3	13.2	12.2
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Aug.	9-22-81	87.2	-2.5	-1.1	13.6
Capital goods industries	Aug.	9-22-81	30.7	3.3	4.9	17.2
Nondefense	Aug.	9-22-81	24.8	2.4	4.0	16.6
Defense	Aug.	9-22-81	5.9	7.2	9.2	19.6
Inventories to sales ratio: 1/						
Manufacturing and trade, total	July	9-14-81	1.41	1.39	1.39	1.48
Manufacturing	July	9-1-81	1.60	1.57	1.60	1.71
Trade	July	9-14-81	1.23	1.23	1.20	1.27
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	July	9-1-81	.571	.568	.565	.567
Retail sales, total ($ bil.)	Aug.	9-11-81	87.7	.6	2.6	9.8
GAF 3/	Aug.	9-11-81	18.4	1.7	1.8	7.4
Auto sales, total (mil. units.) 2/	Aug.	9-3-81	10.0	23.0	26.8	17.7
Domestic models	Aug.	9-3-81	7.9	34.6	38.8	23.2
Foreign models	Aug.	9-3-81	2.1	-6.8	-4.0	1.1
Plant & Equipment expen. ($ bil.)4/						
Toal nonfarm business	1981	9-10-81	321.50	--	--	8.8
Manufacturing	1981	9-10-81	126.79	--	--	9.5
Nonmanufacturing	1981	9-10-81	194.71	--	--	8.3
Capital Appropriations, Mfg.	1981-Q2	9-2-81	29,101	4.9	--	12.8
Housing starts, private (thous.) 2/	Aug.	9-17-81	937.0	-10.7	-19.1	-33.6
Leading indicators (1967=100)	Aug.	9-30-81	133.8	-.5	-1.0	2.4

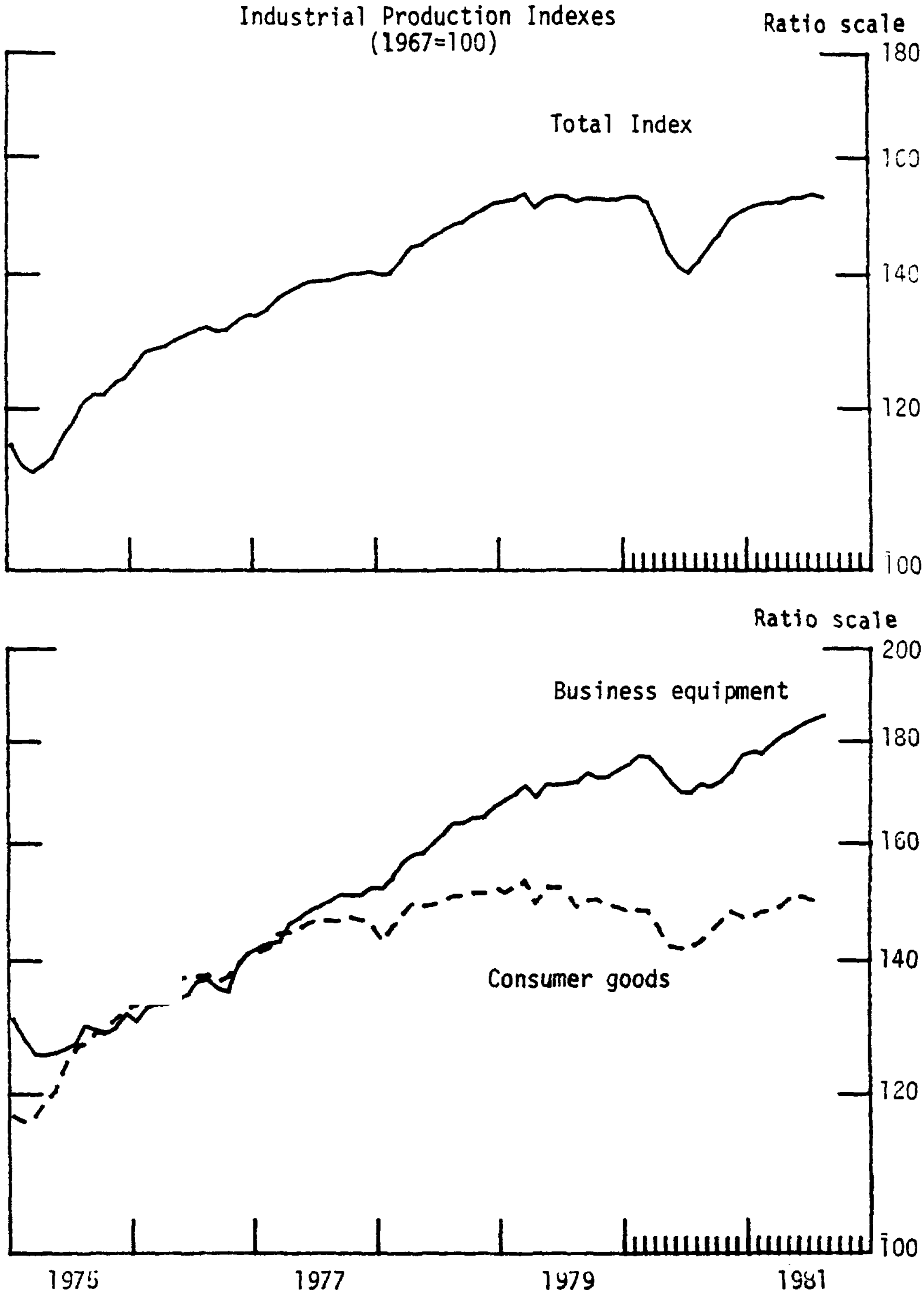
1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce August 1981 Survey.

A variety of indicators show signs that economic activity has slowed recently. Industrial production declined a bit in August, primarily reflecting developments in the automotive and construction industries, and appears to have been reduced further in September. Housing starts in August slid to one of the lowest rates of the past decade. Consumer spending for items other than autos and business spending for fixed capital both appear to have changed little since early last spring. Although the rate of increase in food prices has accelerated recently, most broad measures of inflation remain close to the second-quarter rate.

Industrial Production and Capacity Utilization

Activity in the industrial sector eased noticeably over the summer. By July 1981, the index of industrial production was only slightly above its most recent high in January 1980, and it declined 0.4 percent in August. Output in September now appears, on balance, to have been reduced further. Auto assemblies were unchanged over the month, but the available weekly data suggest declines in steel, electricity, and coal output. Given the recent low level of residential building, a further decrease in the output of construction supplies appears likely. In addition, the output of many household durable goods for which demand is influenced by the housing market may have been reduced further.

On the positive side, equipment production, which is about one-fifth of total industrial output, has been trending higher for more than a year. Recently, strength in output of this sector for business has been narrowly based in commercial equipment, which includes computers,



Industrial Production Indexes
(1967=100)
Ratio scale
180
Total Index
160
140
120
100
Ratio scale
200
Business equipment
180
160
140
Consumer goods
120
100
1975
1977
1979
1981

CAPACITY UTILIZATION IN MANUFACTURING
(Percent, seasonally adjusted)

	(1) 1972-1980 quarterly highs[1]	(2) 1967-1980 Mean	(3) August[2] 1981	Difference (1) less (3)
Manufacturing industries	87.8	82.6	79.2	8.6
Primary Processing	93.2	84.9	79.3	13.9
Textile mill products	95.0	86.7	80.9[3]	14.1
Paper and products	95.7	89.4	87.6	8.1
Chemicals and products	85.9	79.8	77.7[3]	8.2
Petroleum products	98.5	91.6	75.8	22.7
Rubber and plastics products	99.3	89.4	87.0	12.3
Clay, glass, and stone products	87.7	78.9	71.1[3]	16.6
Iron and steel	102.5	83.9	75.5[3]	27.0
Nonferrous metals	98.2	84.9	82.4[3]	15.8
Fabricated metal products	85.4	79.5	73.1	12.3
Advanced processing	85.7	81.3	79.1	6.6
Foods	87.1	84.5	83.7[3]	3.4
Nonelectrical machinery	87.9	80.8	80.5	7.4
Electrical machinery	89.8	79.9	84.0	5.8
Motor vehicles and parts	98.0	81.1	58.7	39.3
Aerospace and misc. trans. equip.	92.0	77.0	77.6	14.4
Instruments	89.3	83.2	81.9	7.4

1. Highs are specific to each series and are not necessarily coincident.
2. Preliminary estimates.
3. July 1981.

and in energy-related equipment; orders data do not suggest a sudden reversal of this trend. Output of defense equipment, which has grown at a moderate pace during the last four years, is likely to grow further in view of expenditure authorizations and orders backlogs.

Capacity utilization in manufacturing declined 0.6 of a percentage point in August to 79.2 percent--its lowest level since October 1980 and 8 percentage points below the 1979 high. Capacity utilization in manufacturing historically has averaged 83 percent; it has been at or below the 80 percent mark for the 16 months ended with August--nearly as long as during and after the 1974-75 and the 1970-71 recessions.

Employment and Unemployment

Employment was little changed in August after growing strongly in July, and initial claims for unemployment insurance benefits suggest some weakening of labor demand in recent weeks. Filings for the four weeks ended September 18 have averaged 50,000 above the preceding four weeks.

The establishment survey reported an increase of 61,000 in employment in August, less than half of the average monthly rise during the current expansion. In the goods-producing sectors, the industries showing employment growth included oil and gas extraction and the factories that manufacture their equipment. In manufacturing, aside from losses in the volatile food products industry and gains in petroleum machinery, the August employment changes were generally small and offsetting, and the factory workweek also held steady. Trade, services, transportation, and public utilities also continued to grow in August at their average rates of recent months. Construction employment,

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

	1979	1980	1981 Q1	1981 Q2	1981 June	1981 July	1981 Aug.
	-Average monthly changes-						
Nonfarm payroll employment[2]	170	34	133	89	51	351	61
Strike adjusted	176	28	130	117	-75	306	41
Manufacturing	-5	-58	5	78	10	123	-32
Durable	1	-47	7	60	24	61	-9
Nondurable	-6	-12	-2	18	-14	62	-23
Construction	15	-12	10	-44	-50	-15	-4
Trade	30	12	55	27	3	77	69
Finance and services	84	79	57	76	25	108	44
Private nonfarm production workers	103	-9	98	110	113	302	68
Manufacturing production workers	-16	-67	5	57	-2	97	-15
Total employment[3]	172	-42	377	-7	-843	570	-18
Nonagricultural	174	-48	416	-3	-755	577	-130

1. Average change from final month of preceding period to final month of period indicated. These figures are revised to reflect new seasonal factors and the 1980 benchmark to the establishment survey data.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

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

	1979	1980	1981 Q1	1981 Q2	1981 June	1981 July	1981 Aug.
Total, 16 years and older	5.8	7.1	7.4	7.4	7.3	7.0	7.2
Teenagers	16.1	17.7	19.1	19.2	19.0	18.1	18.8
20-24 years old	9.0	11.5	11.8	12.4	12.1	11.3	11.8
Men, 25 years and older	3.3	4.7	4.8	4.8	5.0	4.7	4.8
Women, 25 years and older	4.8	5.5	5.8	5.7	5.6	5.7	5.5
White	5.1	6.3	6.6	6.5	6.4	6.2	6.1
Black and other	11.3	13.2	13.2	13.7	14.2	13.6	15.0
Fulltime workers	5.3	6.8	7.1	7.1	7.0	6.7	6.7
White collar	3.3	3.7	3.9	4.0	3.8	4.1	3.9
Blue collar	6.9	10.0	10.0	9.8	9.8	9.4	9.3

PERSONAL INCOME
(Based on seasonally adjusted data)

	1979	1980	1981 Q1	1981 Q2	1981 June	1981 July	1981 August
	- - - - Percentage changes at annual rates[1] - - - -						
Total personal income	12.3	11.0	11.8	8.7	8.6	17.5	13.3
Wage and salary disbursements	10.8	9.0	13.5	6.8	5.4	8.7	13.2
Private	11.6	9.2	15.3	7.2	5.4	9.6	15.2
Disposable personal income							
Nominal	11.7	10.9	11.2	8.0	6.9	18.2	12.4
Real	2.0	.8	3.0	1.4	.9	6.0	n.a.
	- - - - - Changes in billions of dollars[2] - - - - -						
Total personal income	18.3	18.7	21.3	14.6	16.8	34.7	26.9
Wage and salary disbursements	10.3	9.8	13.9	7.0	6.6	10.7	16.2
Private	8.9	8.1	12.7	5.9	5.4	9.6	15.3
Manufacturing	2.0	2.3	3.2	3.1	1.0	3.0	3.7
Other income	8.9	9.6	11.0	7.8	10.5	24.9	11.2
Transfer payments	2.8	4.1	2.4	1.5	3.0	15.8	1.4
Less: Personal contributions for social insurance	.9	.8	3.6	.2	.2	.9	.8
Memorandum:							
Personal saving rate[3]	5.2	5.6	4.6	5.4	5.5	5.4	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 changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.
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.

although unchanged, had declined gradually since May and remains slightly below last year's trough. Government employment, reflecting budget cuts, the phase-out of the CETA program, and the firing of the air traffic controllers, also continued to edge down.

The unemployment rate edged up to 7.2 percent in August--close to the 7.3 percent average prevailing so far this year. Much of the August rise in unemployment occurred among black teenagers whose unemployment rate climbed to 46 percent in August after averaging about 36 percent earlier this year. Weaker demand for labor also has helped to limit the uptrend in the overall participation rate, which has risen only 0.2 percentage point in the last year compared to 0.6 percentage point per year during the four prior years.

Personal Income and Consumer Spending

Personal income growth averaged 15 percent at an annual rate in July and August after rising more slowly in the second quarter. In July, the quicker pace was attributable to the annual cost-of-living increase for social security and to strong growth in factory payrolls. In August, large payroll increases in the service-producing sector boosted the wage and salary component. While these gains have boosted real disposable personal income, consumer wealth apparently has been weakened in recent months by the drop in bond and equity prices; additionally, the marketability of the housing stock has nearly evaporated.

Consumer spending has been relatively sluggish through the summer. Auto sales benefited from purchase incentives in August and early September, but the rise in retail sales excluding automobiles and building

RETAIL SALES
(Percent change from preceding period;
based on seasonally adjusted data)

	1981					
	Q1	Q2	Aug./ Mar.	June	July	Aug.
Total sales	4.9	-.4	.1	2.2	-.3	.6
(Real)[1]	2.9	-1.7	n.a.	2.0	-1.1	n.a.
Total, less autos and nonconsumption items	3.5	1.0	.8	1.6	-.6	.5
Total, exc. auto group, gasoline, and nonconsumption items	3.3	1.1	.7	1.7	-.6	.4
GAF[2]	3.1	1.1	1.4	2.7	-2.4	1.7
Durable goods	8.5	-4.1	-2.1	3.8	.1	1.0
Automotive	10.0	-5.6	-1.0	5.5	1.8	1.8
Furniture & appliances	4.4	-2.6	-3.0	2.1	-4.2	1.8
Nondurable goods	3.3	1.3	1.1	1.5	-.5	.5
Apparel	5.1	-.5	1.8	2.0	.0	.5
Food	2.1	2.3	2.3	1.8	.0	.5
General merchandise[3]	1.8	3.2	2.9	3.1	-2.7	2.1
Gasoline	4.9	.1	1.7	1.4	-.3	1.7

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release. Series is not yet available for July.
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)

	1980	1981					
	Q4	Q1	Q2.	June	July	Aug.	Sept.
Total	9.0	10.0	7.9	7.6	8.2	10.1	n.a.
Foreign-made	2.5	2.7	2.3	2.2	2.3	2.1	n.a.
U.S.-made	6.6	7.3	5.6	5.4	5.9	7.9	6.9[1]
Small	3.3	3.9	2.9	2.9	3.1	4.1	n.a.
Intermediate & standard	3.3	3.4	2.8	2.6	2.8	3.9	n.a.

Note: Components may not add to totals due to rounding.
1. First 20-days.

materials in August only offset the July decline. Indeed, nonauto retail sales in nominal terms are only slightly above their March level. Sales at furniture and appliance stores, which typically respond to credit conditions, have been particularly poor, although sales at general merchandise and apparel stores have shown small gains in nominal terms since March.

During August and the first three weeks of September, substantial credit and price concessions were offered on purchases of domestic automobiles, and these incentives boosted sales to almost an 8 million unit annual rate for most of that rebate period. However, in the second ten days of September, while the concessions were still in effect, sales of domestic-model autos dropped to about a 6 million unit rate. While data for any single ten-day period must be evaluated with considerable caution, the decline may portend a very poor sales performance after the rebates. Sales of foreign autos which have averaged about a 2.3 million unit annual rate between April and July, fell to a 2.1 million unit rate in August--a decline that may be attributable to reduced inventories of Japanese models.

Responses to questions in the latest consumer surveys taken by the University of Michigan Survey Research Center and The Conference Board that relate most directly to current developments in the marketplace remain quite unfavorable. Both of the surveys report that confidence declined in September, and that attitudes of individuals about purchases of autos, houses, or appliances generally fell back to earlier low levels.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates)

	1979	1980	1981 Q1	1981 Q2	1981 May	1981 June(r)	1981 July(p)
Book Value Basis							
Total	49.0	31.0	41.1	35.0	38.3	47.7	59.5
Manufacturing	31.5	16.4	34.2	12.7	21.0	5.4	26.0
Materials	12.3	2.5	10.1	.9	-6.7	2.1	18.3
Work-in-Process	12.9	8.7	13.3	4.0	13.4	-6.4	7.5
Finished Goods	6.2	5.2	10.8	7.8	14.4	9.8	.1
Wholesale	10.3	11.7	.0	6.7	-.3	19.7	3.7
Retail	7.2	2.9	6.8	15.6	17.6	22.6	29.9
Automotive	1.4	-2.3	-3.5	12.2	10.6	16.6	14.7
Constant Dollar Basis							
Total	7.2	-2.5	-1.3	11.0	9.3	17.6	24.2
Manufacturing	6.8	-1.0	4.6	.9	2.3	-2.5	10.1
Wholesale	.4	.6	-1.6	3.2	1.0	8.3	-.7
Retail	-.1	-2.2	-4.3	6.9	6.1	11.8	14.8

INVENTORIES RELATIVE TO SALES[1]

	1980 May[2]	1980 Q4	1981 Q1	1981 Q2	1981 May	1981 June(r)	1981 July(p)
Book Value Basis							
Total	1.53	1.40	1.39	1.41	1.40	1.39	1.41
Manufacturing	1.76	1.59	1.61	1.60	1.61	1.57	1.60
Wholesale	1.21	1.12	1.08	1.11	1.10	1.12	1.11
Retail	1.44	1.35	1.31	1.36	1.35	1.34	1.37
Constant Dollar Basis							
Total	1.76	1.65	1.63	1.66	1.67	1.66	1.68
Manufacturing	2.11	1.95	1.97	1.95	1.98	1.93	1.98
Wholesale	1.44	1.38	1.33	1.40	1.38	1.41	1.39
Retail	1.48	1.41	1.36	1.42	1.40	1.40	1.45

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Period of cyclical peak in ratios.
(r) Revised estimates.
(p) Preliminary estimates.

Inventory Investment

As retail sales fell in July, inventories at retail outlets rose sharply--at a $30 billion annual rate--in what probably was an unintended accumulation. While the buildup in auto dealers' stocks was an important factor in the July buildup, nonauto inventory stocks showed increasingly rapid growth during the summer. In particular, the book value of inventories at general merchandise stores rose at a brisk, $5.9 billion rate in July, following $5.5 billion and $2.4 billion rates of increase in the two preceding months.

Stockbuilding also was quite large at the manufacturing level in July, with significant accumulation in sectors in which demand has been relatively strong, such as mining equipment and drilling rigs, and the overall inventory-sales ratio remained at the 1.60 level prevalent over the past year. A buildup in primary metals may, however, be a result of the weakness downstream in auto production and construction activity.

Residential Construction

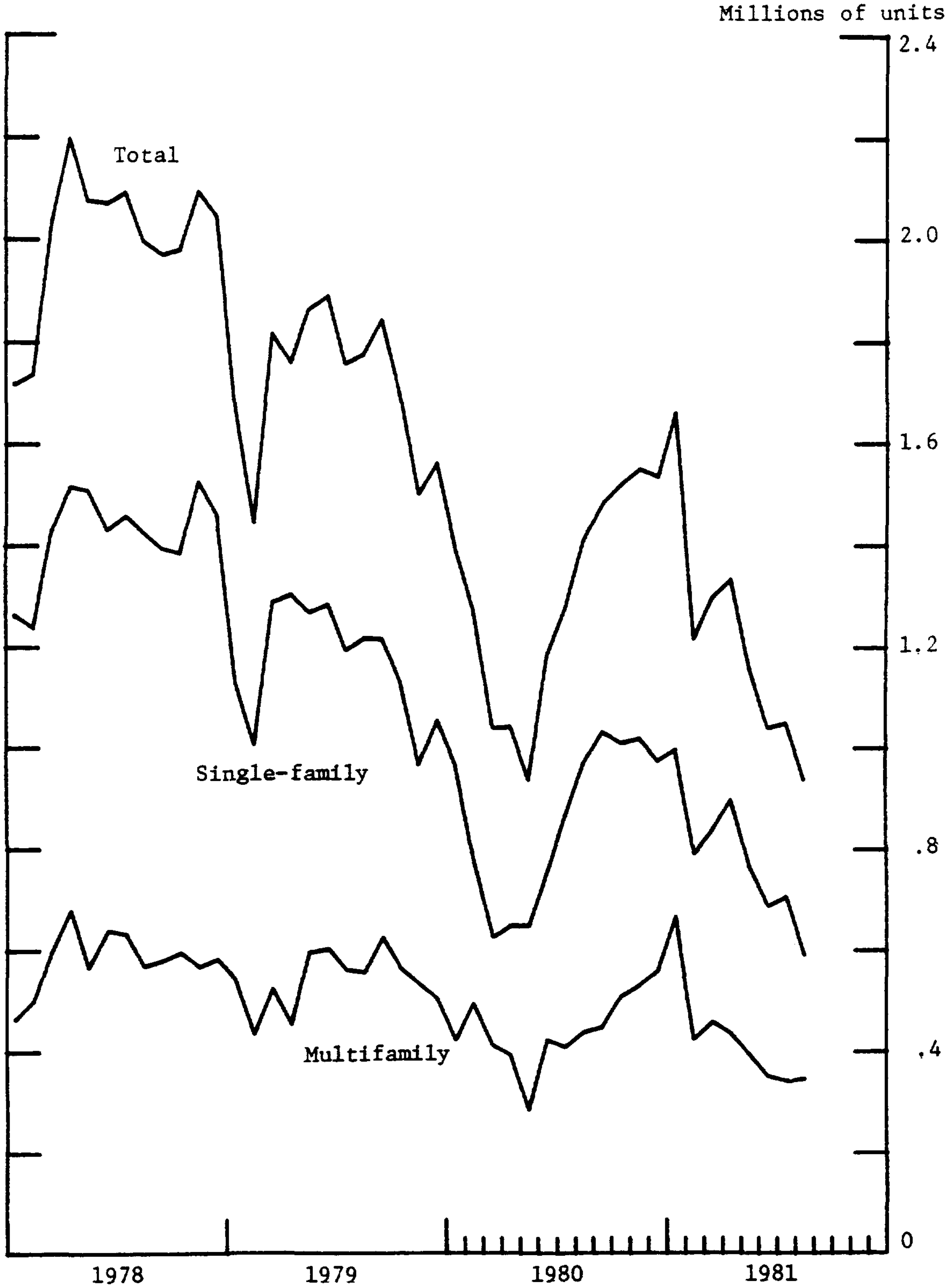
Housing market statistics for July and August indicate that the current slump has deepened. Moreover, mortgage interest rates have continued to rise in recent weeks, and September data may show further deterioration in activity. In August, housing starts fell to a seasonally adjusted annual rate of 0.94 million units, down from the already-depressed rate of 1.05 million units in June and July. Single-family starts in August were at an annual rate of 591,000 units, down 40 percent from a year earlier and one of the lowest rates since the series was

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

	1980		1981				
	Annual	Q4	Q1	Q2[1]	June	July	Aug.[1]
All units							
Permits	1.19	1.32	1.18	1.11	.96	.91	.86
Starts	1.29	1.54	1.39	1.18	1.04	1.05	.94
Single-family units							
Permits	.71	.79	.69	.64	.57	.53	.49
Starts	.85	1.00	.87	.78	.69	.71	.59
Sales							
New homes	.53	.54	.51	.45	.41	.42	n.a.
Existing homes	2.88	3.00	2.54	2.59	2.66	2.52	n.a.
Multifamily units							
Permits	.48	.53	.49	.47	.40	.39	.37
Starts	.44	.53	.52	.39	.35	.34	.35
Mobile home shipments	.22	.25	.25	.26	.25	.27	n.a.

1. Preliminary estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



CHANGES IN AVERAGE PRICES OF HOMES SOLD
(Percentage increase from preceding year)

Period	Existing Homes [1]	New Homes [2]
1972	7.6	8.0
1973	12.1	8.9
1974	8.4	9.7
1975	9.1	9.1
1976	9.9	9.7
1977	11.5	15.8
1978	20.3	13.5
1979	12.2	13.3
1980	13.5	8.1
Latest 12 months	5.9[3]	8.5[4]

Source: Existing home prices are from National Association of Realtors. New home prices are from a Bureau of Census survey.
1. December to December.
2. Q4 to Q4, adjusted for quality change.
3. August 1980 to August 1981.
4. 1980-Q2 to 1981-Q2.

begun in 1959. Multifamily starts, about unchanged in August, were off more than 20 percent from a year earlier. The less severe decline in multifamily starts probably reflects the resiliency of the market for condominiums, which now represent a large share of multifamily housing activity.

The volume of sales and the prices of houses sold also have underscored the widespread weakness of the single-family market. Existing-house sales in August fell to an annual rate of 2.26 million units, down more than 30 percent from the recent peak in September 1980. In July, sales of new houses were at an annual rate of 0.42 million units, also off more than 30 percent from last year's high. Actual sales volume for both existing and new houses may be even weaker than reported, as buyers' difficulties with financing are probably causing cancellations of some sales contracts before closing.

The average price of new houses sold, not adjusted for quality change, was $83,600 in July--up 9 percent from a year earlier. However, a large proportion of recent new-house sales apparently has involved builder "buy-downs" of mortgage interest rates, which often cause the reported price to overstate a builder's proceeds from a sale. The average price of existing houses sold in August was $80,700. Over the last year, such prices have risen only about 6 percent, but individual sellers also frequently do not net the full proceeds when concessionary financing is involved. Recent price performance in the housing market appears weaker than during the 1974-75 downturn. Compared with that period, the rate of increase in house prices during the past year has been 2 to 3 percentage points lower, even before adjusting for the price impact of concessionary finance measures. The difference is due in part to the higher real mortgage interest rate that has reduced the attractiveness of housing as an investment.

Business Fixed Investment

Data on real business fixed investment show weakness through August, and forward looking indicators give little indication of an upturn in the near term. Taken together, July and August shipments of nondefense capital goods, a measure of about 80 percent of investment in producers' durable equipment, were little changed from the June levels, and drilling for oil and gas has receded recently. In contrast, sales of heavy-weight trucks and investment in real nonresidential construction have risen somewhat.

Capital spending commitments data indicate weakness in expenditures over the near term. Total contracts and orders for plant and equipment in constant dollars have been little changed over the past five months. Data on real orders for nondefense capital goods did show a sharp increase in August; this large rise, relative to a 2.4 percent advance in nominal terms, reflected a shift in their composition in the total. An unusually strong increase for office and store machinery (which have a lower deflator than other components) more than offset a drop in the remaining items. Excluding orders for office and store machinery, new orders in real terms have been flat all year. The recent data on new and unfilled orders for nondefense capital goods suggest shipments of these could continue to be weak through early 1982. In the volatile structures category, contracts and permits over periods of a number of months also have continued to show no trend, but recently they have increased substantially in the three months ending in August.

Net capital appropriations of the nation's 1,000 largest manufacturers--a longer term indicator--rose 5.9 percent in the second quarter of 1981, according to the Commerce Department's July-August survey of plant and equipment spending plans. Excluding petroleum, net appropriations rose by almost 34 percent. The survey coverage is rather small--accounting for only about 6 percent of business fixed investment--but in terms of average lags this may suggest some recovery in capital spending after mid-1982 for the firms in the sample.

Federal Government

Although the federal unified budget deficit for July and August was substantially lower than during the comparable period last year, figures for the year to date show about the same deficit in the current fiscal year as in FY1980. Continuing trends that began in the winter quarter, the growth of federal outlays relative to 1980 levels has slowed appreciably in recent months while the growth rate of receipts increased. The decline in the growth rate of outlays largely reflects recent cuts in the federal work force, the CETA program, and transportation grants. In contrast, more success in personnel recruitment and retention has resulted in larger defense compensation outlays.

The strong growth of receipts is due to the effect of bracket creep on personal income tax receipts, the build-up of receipts from the windfall profit oil excise tax that was enacted last year, and the rapid

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

	1980	1981				
	Q4	Q1	Q2	June	July	Aug.
Nondefense capital goods shipments						
Current dollars	4.2	1.4	3.2	2.3	-2.7	2.7
Constant dollars[1]	.6	0.3	-0.5	2.3	-3.5	.8
Addendum: Sales of heavy-weight trucks (thousands)	230	246	230	190	200	240
Nonresidential construction						
Current dollars	1.8	8.0	1.3	1.6	1.8	---
Constant dollars	.3	5.7	-.6	1.5	1.3	---
Addendum: Oil and gas well drilling (millions of feet)	26.5	24.7	30.1	30.4	29.5	25.0

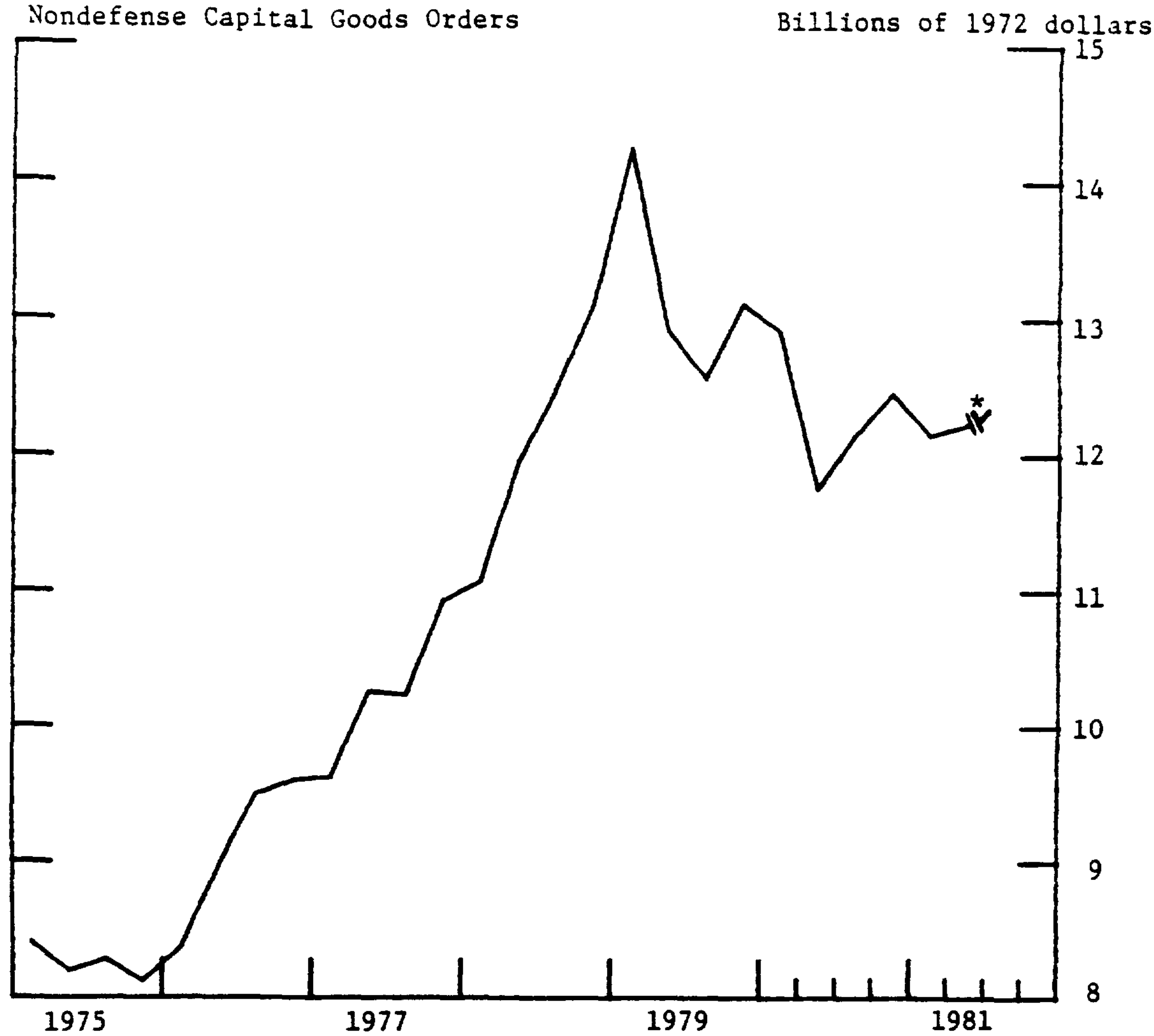
1. FRB staff estimate.

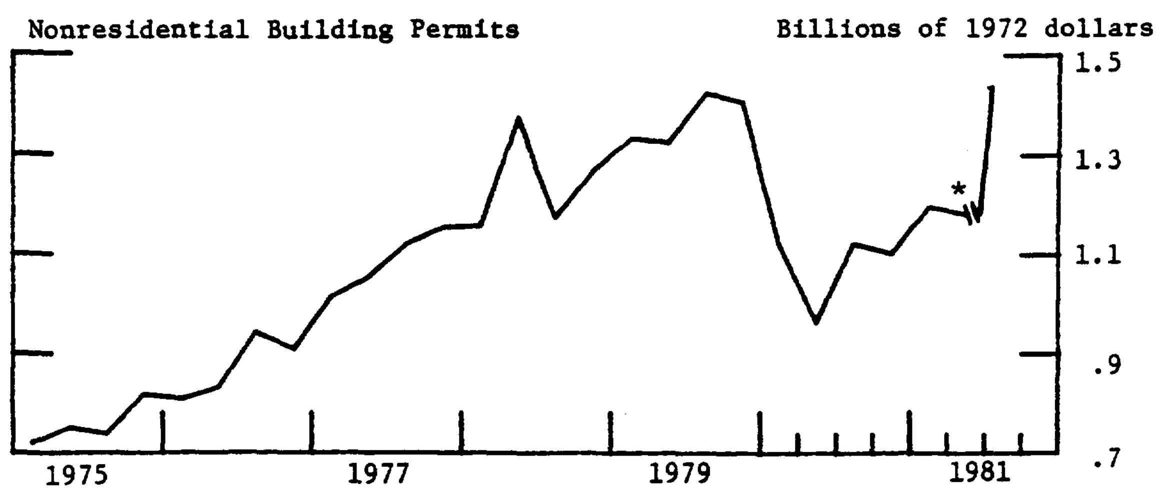
BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period; based on seasonally adjusted data)

	1980	1981				
	Q4	Q1	Q2	June	July	Aug.
Nondefense capital goods orders						
Current dollars	3.4	1.2	1.9	-2.7	4.3	2.4
Constant dollars	2.6	-2.5	.8	-3.7	.0	7.2
Machinery						
Current dollars	6.2	1.1	3.1	-.9	-3.5	4.9
Constant dollars[1]	3.9	-2.0	.6	-2.2	-4.0	4.9
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	6.40	6.32	6.10	5.99	6.17	6.01
Machinery	4.79	4.68	4.62	4.53	4.54	4.51
Nonresidential building permits						
Current dollars	-.8	10.1	.5	10.6	31.4	---
Constant dollars[1]	-1.8	8.6	-1.3	10.6	30.7	---

1. FRB staff estimate.

COMMITMENTS FOR BUSINESS CAPITAL SPENDING
(Seasonally adjusted)





*Data are plotted quarterly through 1981-Q2; after series break data shown as July-August average (top) and month of July (bottom).

Year to Date Federal Unified Budget Totals
(Dollar amounts in billions)

	Receipts			Outlays			Deficit		
		FY81 to Date			FY81 to Date			FY81 to Date	
Period	Amount in period	Total to date	Increase over FY80 (percent)	Amount in period	Total to date	Increase over FY80 (percent)	Amount in period	Total to date[1]	Increase over FY80 (percent)
1980-Q4	127	127	11.4	161	161	15.9	-34	-34	37.1
1981-Q1	135	262	14.7	167	328	17.1	-32	-66	27.8
Q2	184	446	15.8	167	495	15.7	17	-49	14.2
July	48	494	17.0	58	554	15.2	-10	-60	2.5
August	48	542	16.2	53	607	14.1	-5	-65	-.6

1. The deficit for FY1980 was $59.6 billion. Daily Treasury Statement data for September to date is consistent with a deficit of about the same size in FY1981.

SEPTEMBER BUDGET PROPOSALS
(Billions of Dollars)

	Fiscal years		
	1982	1983	1984
Outlay saving proposals:			
12% across-the-board cut in FY1982 appropriations	8.4	5.3	3.8
Defense cuts	2.0	5.0	6.0
Entitlement reforms	2.6	10.0	15.0
Outlay total	13.0	20.3	24.8
Revenue increase	3.0	8.0	11.0
Total effect of proposals on deficit	16.0	28.3	35.8

growth of nominal income during the first quarter of 1981. Corporate tax receipts, however, will in September begin to be affected by the Economic Recovery Act of 1981, the capital cost recovery provisions of which are retroactive to January 1, 1981. To adjust for the change on an NIA basis, the Bureau of Economic Analysis has revised downward its estimates of corporate tax accruals for the first half of the year at a $3.9 billion annual rate. The liberalized leasing provisions of the bill account for almost half of this tax cut; most of the remainder is due to the accelerated depreciation provisions.

There has been growing skepticism in recent weeks regarding both the Administration's Mid-Session Review estimate of a FY1982 deficit totalling $42.5 billion and its goal of balancing the budget by 1984. The Administration has responded with a new round of proposed budget cuts totalling $13 billion and tax reforms adding $3 billion to revenues in FY1982. The new proposals include a $2 billion reduction in the growth of defense spending, a further 12 percent reduction in nondefense appropriations that results in an $8.4 billion spending cut, and reforms of entitlement programs other than social security that could save $2.6 billion. Revenue-increasing proposals include limitations on the use of tax-exempt industrial development bonds, the elimination of some energy credits, and the speed-up of corporate tax collections. A major portion of the cuts specified on September 24 had been assumed in the Administration's earlier projections, but the composition of the cuts has been altered somewhat.

State and Local Government

Real purchases by state and local governments fell sharply in the second quarter, and recent data indicate that the reduction in federal grant support, shrinking growth in tax receipts caused by poorer economic conditions, and a recent emphasis on conservative government continue to constrain outlays.

Since January 1981, state and local employment has decreased by 153,000, largely due to the phase-out of federally-funded public service jobs. A Department of Labor survey of CETA public service employment reported that at the end of August, enrollment stood at 49,000, down more than 200,000 from March 1981, when the Administration first issued orders to dismantle the program. The remaining PSE workers are scheduled to be cut by October 1. A preliminary follow-up survey of the terminated PSE workers showed that of the first 131,000 who were laid-off between March and May 1981, two-thirds (85,000) had been placed in either unsubsidized jobs or in another CETA training program. Of those not placed, about one-half were collecting unemployment compensation.

State and local construction spending also has continued on a downward trend this year. In July, the value of new construction put-in-place decreased 4-1/2 percent; over the past six months these outlays have fallen by about 25 percent. Moreover, the near-term outlook for construction outlays remains weak; according to the Dodge series, public construction contracts--of which 85 percent are by state and local governments--in the first seven months of 1981 were down 5-1/2 percent from the first seven months of 1980.

Prices and Wages

The consumer price index jumped sharply in July and August, but much of the acceleration resulted from a surge in homeownership costs rather than a fundamental change in basic price trends. Excluding homeownership, consumer prices rose 0.9 percent in August and at a 9.2

percent annual rate so far this year. The rate of increase in food prices has picked up, but energy costs have remained an important moderating influence in the consumer sector.

The CPI measure of mortgage rates rose rapidly in July and August, and with commitment rates now around 18 percent, further increases can be expected in coming months. However, home price increases have slackened as high mortgage interest rates have depressed effective demand. In August, the CPI measure of house prices, which showed steep declines earlier in the year, was only 5-1/2 percent above a year ago, roughly consistent with the general slowing that has been evident in more broad-based measures of house prices.

Outside the homeownership category, food prices, which had been little changed during the first half of 1981, have risen quite rapidly in the past two months. Retail meat prices rebounded in July and August, and prices for fruits and vegetables also rose sharply. While a cutback in meat production has put upward pressure on meat prices, consumer resistance to the higher meat prices may limit increases at retail. Crop conditions have improved significantly owing to favorable weather developments. Prices of crude food materials appear to have declined further in September, and the record or near-record crops of wheat and feed grains should tend to lower food costs later.

Increases in energy prices continued to be very small in July and August, as they have since April. Gasoline and fuel oil costs declined for the fifth consecutive month in August, and there are still signs of weakness in petroleum prices in world markets.

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

	Relative importance Dec. 1980	1980	1981 Q1	1981 Q2	1981 July	1981 Aug.
Finished goods	100.0	11.8	13.3	5.8	5.3	3.5
Consumer foods	23.1	7.5	1.6	.5	17.6	2.3
Consumer nonfood	56.6	14.2	18.6	6.6	-.9	3.0
Energy	12.0	27.8	66.8	2.0	-12.4	-8.7
Exc. energy	44.6	10.4	7.8	8.0	2.2	6.5
Capital equipment	20.3	11.4	12.0	10.1	8.6	6.8
Intermediate materials[2]	93.6	12.4	14.3	7.4	5.4	5.0
Exc. energy	77.3	10.1	8.0	8.5	8.5	5.5
Crude food materials	57.7	8.6	-23.1	8.5	3.6	-11.3
Crude nonfood	42.3	19.1	39.7	6.5	9.2	-1.5
Exc. energy	15.5	7.5	-36.7	22.1	29.0	-10.0

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

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

	Relative importance Dec. 1980	1980	1981 Q1	1981 Q2	1981 July	1981 Aug.
All items	100.0	12.4	9.6	7.4	14.2	10.1
Food	17.3	10.2	2.1	-.1	10.2	9.2
Energy	10.8	18.1	49.1	4.7	4.9	1.2
All items less food and energy	71.8	12.1	5.8	11.8	17.4	10.7
Homeownership	25.8	16.5	3.1	16.9	25.7	13.1
All items less food, energy, and homeownership[3]	49.6	9.9	8.0	8.8	14.1	8.8
Other commodities[4]	20.5	8.1	6.6	7.8	7.2	6.6
Other services	26.1	10.3	10.1	10.0	16.2	10.0

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated.
3. Includes the home maintenance and repair component of homeownership costs.
4. Excludes used cars.

The CPI excluding food, energy, and homeownership rose 0.7 percent in August, following a sharp jump in July when there was an exceptionally large adjustment in transportation fares. Prices for services other than mortgage financing and energy have risen at a stubborn 11 percent pace during the first 8 months of this year. In contrast, prices for commodities other than food, energy, home purchase and used cars have risen at a 7 percent annual rate so far this year--down from an 8 percent advance during 1980.

In the business sector, the rate of increase in producer prices for capital equipment continued to slow somewhat in August. The price relief appeared to be fairly widespread with the exception of sharp increases for oil and gas related machinery. In addition, costs of intermediate materials other than food and energy have eased significantly this year and rose only 5-1/2 percent at an annual rate in August.

The rate of wage growth also has slowed in some sectors, although overall, not as much as the deceleration in prices. As measured by the index of hourly earnings, wage rate increases for production workers in manufacturing have slowed noticeably, rising 9-1/4 percent at an annual rate during the first eight months of 1981 compared with a nearly 11 percent increase during 1980. The employment cost index, a more comprehensive measure of wage and salary rates earned by all workers in the nonfarm sector, also showed smaller increases for blue-collar and union workers in the first half of 1981. In part, this slowing may reflect the effects of a light bargaining calendar resulting in few first year settlements that tend to be quite large. In addition, growing

SELECTED MEASURES OF COMPENSATION, PRODUCTIVITY, AND COSTS (NONFARM BUSINESS)
(Seasonally adjusted annual rates)

	1979	1980	1981 Q1	1981 Q2	1981 Aug.	1981 1st 8 months
Hourly Earnings Index - production workers[1]						
Total	8.0	9.6	9.6	8.3	13.6	9.1
Manufacturing	8.7	10.9	9.3	9.7	9.4	9.2
Nonmanufacturing	7.7	9.1	9.7	7.7	15.5	9.1
Employment Cost Index, wages and salaries - all persons[2]						
Total	8.7	9.0	10.5	8.4		
By Occupation:						
White collar	8.6	8.7	11.7	8.4		
Blue collar	9.0	9.6	8.3	9.1		
Service Workers	7.2	8.1	12.2	5.5		
By Bargaining Status:						
Union	9.0	10.9	8.0	10.3		
Nonunion	8.5	8.0	11.4	7.5		
Labor Productivity and Costs - all persons[1]						
Compensation Per Hour	9.9	10.1	11.6	9.6		
Output Per Hour	-.9	.1	4.3	.7		
Unit Labor Costs	10.9	9.9	7.0	8.8		

Major Collective Bargaining - new settlements for more than 1,000 workers[3]

	1979	1980	--1981-H1--
All Industries			
1st-year adjustments	7.4	9.5	11.3
Average over contract life	6.0	7.1	9.2
Workers affected (in thousands)	3492	3787	927

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compount rates; monthly changes are not compounded.
2. Percent change from final month of previous period, compounded. Seasonal adjustment performed by FRB staff.
3. Changes are the employment-weighted average of new settlements negotiated during the period.

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

	1980	1981 Q1	Q2	July	Aug.	1st 8 months[3]
Total private nonfarm	9.6	9.6	8.3	5.4	13.6	9.1
Manufacturing	10.9	9.3	9.7	7.5	9.4	9.2
Durable	11.6	9.4	9.6	7.7	9.4	9.2
Nondurable	9.8	9.1	10.0	7.1	9.3	9.1
Contract construction	7.6	9.2	4.9	11.7	3.4	7.0
Transportation and public utilities	9.4	9.4	11.0	2.5	21.2	11.2
Total trade	8.8	9.6	7.1	4.4	10.5	8.2
Services	9.5	9.8	8.5	1.8	22.3	9.7

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. Quarterly changes are at compound rates; monthly changes are not compounded.
3. Changes from December 1980 to August 1981 at compound annual rates.

financial strains in some industries such as rubber, airlines, trucking, and newspapers have led to numerous reports of wage concessions by unionized workers. At the same time, hourly earnings for white collar workers, especially professionals and managers, and for service workers have risen somewhat more rapidly this year than in 1980.

Short-term interest rates have eased since the August FOMC meeting, but longer-term interest rates are sharply higher. Growth of M1-B has remained weak, and demands for reserves have grown less than the volume of nonborrowed reserves provided by the open market desk. Borrowing at the discount window consequently has ebbed, the surcharge rate for frequent borrowers has been lowered one percentage point, and the federal funds rate has fallen by about 3-1/2 percentage points. Three-month interest rates generally have declined 1-1/2 to 2 percentage points, and the bank prime rate has been lowered a point to 19-1/2 percent. In long-term bond markets, interest rates have risen to record highs, evidently in reflection of deepening concern about the impact of prospective federal deficits; home mortgage rates also have reached new highs. Stock prices are down markedly.

Growth in M1-B picked up in August but then slowed again in September; it remains well below the lower end of its target range for 1981. Despite a diversion of funds to retail RPs, M2 expansion was strong in August and has remained substantial in September, as high-yielding deposits and mutual fund shares have grown apace. Growth of M3, which includes retail RPs, also has been robust.

Businesses have continued to focus their demands for credit on commercial banks, finance companies, and the commercial paper market; offerings in the capital market meanwhile have fallen off further in response to deteriorating market conditions. The federal government has continued to borrow heavily, as have state and local governmental units despite the relatively high level of tax-exempt yields. Household borrowing in the mortgage and consumer credit markets remains depressed.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981				Change from:	
	June Low	FOMC July 7	FOMC Aug. 18	Sept. 29	June Low	FOMC Aug. 18
Short-term rates						
Federal funds[2]	18.40	19.93	18.19	14.73p	-3.67	-3.46
Treasury bills						
3-month	13.72	14.89	15.72	14.16	.44	-1.56
6-month	13.45	14.47	15.62	14.69	1.24	-.93
1-year	12.65	13.63	14.74	14.55	1.90	-.19
Commercial paper						
1-month	16.54	17.92	18.02	14.89	-1.65	-3.13
3-month	15.65	16.68	17.63	15.50	-.15	-2.13
6-month	14.58	15.38	17.09	15.73	1.15	-1.36
Large negotiable CDs[3]						
1-month	16.76	17.97	18.14	15.06	-1.70	-3.08
3-month	16.12	17.34	18.08	16.11	-.01	-1.97
6-month	15.25	16.66	18.20	16.78	1.53	-1.42
Eurodollar deposits[2]						
1-month	16.75	18.86	18.66	16.40	-.35	-2.26
3-month	16.75	18.19	18.73	17.61	.86	-1.12
Bank prime rate	20.00	20.00	20.50	19.50	-.50	-1.00
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	13.86	14.73	15.99	16.46	2.60	.47
10-year	13.08	14.04	14.79	15.76	2.68	.97
30-year	12.59	13.42	13.95	15.20	2.61	1.25
Municipal (Bond Buyer)	10.59	10.85[4]	11.94[4]	12.57[4]	1.98	.63
Corporate Aaa						
New issue	14.35	--	--	--	--	--
Recently offered	14.59	14.94[5]	16.63[5]	17.70e	3.11	1.07
Primary conventional mortgages	16.62	16.64[5]	17.27[5]	18.36[5]	1.74	1.09

	1980	1981			Percent change from:	
	Dec. 31	High	Aug. FOMC	Sept. 29	1981 High	Aug. FOMC
Stock Prices						
Dow-Jones Industrial	963.99	1,024.05	924.37	847.89	-17.2	-8.3
NYSE Composite	77.86	79.14	75.55	66.85	-15.5	-11.5
AMEX Composite	348.99	380.36	367.94	291.96	-23.2	-20.7
NASDAQ (OTC)	202.34	223.47	207.01	178.51	-20.1	-13.8

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. One-day quotes for preceding Friday.
e--Estimated.

Monetary Aggregates and Bank Credit

Growth in shift-adjusted M1-B increased to a 7 percent annual rate in August, but it appears to have slowed to about a 1-1/2 percent pace in September.[1] On a quarterly average basis, adjusted M1-B was unchanged in the third quarter following only moderate growth in the first half of the year. The sluggish growth of M1-B thus far this year has been much less than would have been expected on the basis of historical relationships among narrow money, income, and interest rates--at least as captured by the standard money demand equation in the Board's quarterly model. The shortfall of actual from predicted growth of M1-B--which has been predominantly, but not entirely, in the checking account component--may reflect adoption of new cash management techniques. Indeed, an alternative money demand equation designed to capture the incentives for more active cash management tracks the growth in M1-B fairly well, on balance, thus far in 1981.

M2 growth in August, at a 12-3/4 percent annual rate, advanced from the relatively slow pace of the previous three months, and the staff currently estimates that this aggregate slowed to a 9-3/4 percent annual rate of expansion in September. M2 growth for the first three quarters of this year is currently estimated at about a 9 percent rate, implying a velocity that is broadly in line with historical experience.

The recent faster growth in M2 reflects a stepup in growth of small time deposits in combination with continued massive inflows to money market mutual funds. The increase in small time deposits was led by small saver

1. Recent inflows to other checkable deposits have continued to have a smaller effect on M1-B growth than earlier this year--only about one percentage point, on average, since April.

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

	1981 Q1	Q2	Q3[e]	July	Aug.	Sept.[e]	Sept. '80 to Sept. '81[e]
	---- Percentage change at annual rates ----						
Money stock measures							
1. M1-A	-20.8	-5.3	-3.3	-2.0	3.0	-3.6	-6.5
2. (Adjusted)[2]	(-1.7)	(5.1)	(-0.8)	(1.8)	(6.5)	(0.6)	n.a.
3. M1-B	4.9	8.7	0.9	3.6	7.5	3.1	5.4
4. (Adjusted)[2]	(-0.8)	(5.3)	(0.0)	(2.6)	(6.9)	(1.4)	n.a.
5. M2	8.3	10.6	7.8	7.5	12.8	9.7	9.0
6. M3	12.4	10.6	10.7	8.7	14.6	9.9	11.7
Selected components							
7. Currency	5.5	7.9	5.4	9.0	4.0	1.0	6.6
8. Demand deposits	-32.9	-11.8	-7.1	-7.6	1.5	-5.1	-12.2
9. Other checkable deposits	372.3	107.4	23.2	34.0	31.3	39.0	186.7
10. M2 minus M1-B (11+12+13+16)	9.4	11.3	10.1	8.7	14.5	11.9	10.3
11. Overnight RPs and Eurodollars, NSA[3]	0.0	58.9	23.5	-15.1	52.0	-67.5	17.0
12. Money market mutual fund shares, NSA	84.5	113.7	88.5	112.4	99.2	99.9	101.4
13. Commercial banks	6.0	4.2	6.9	5.7	10.8	7.0	7.0
14. savings deposits	-30.5	-11.9	-19.6	-11.5	-29.9	-21.7	-17.0
15. small time deposits	30.2	13.4	21.1	14.5	31.3	20.5	23.6
16. Thrift institutions	3.5	- 0.3	-2.3	-6.1	-2.3	1.4	1.3
17. savings deposits	-29.6	-12.6	-22.4	-21.1	-24.1	-25.2	-18.8
18. small time deposits	19.0	4.7	5.7	-0.2	6.2	11.1	11.2
19. Large time deposits	39.6	10.3	23.9	12.9	26.4	-1.2	27.0
20 at commercial banks, net[4]	40.6	10.1	26.2	13.6	28.8	-2.9	27.3
21. at thrift institutions	34.7	11.2	11.8	7.5	17.3	4.9	26.0
22. Term RPs, NSA	18.1	12.2	43.6	31.1	5.5	93.4	36.5
	--Average monthly change in billions of dollars--						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	3.8	8.5	n.a.	7.9	10.9	n.a.	n.a.
24. Large time deposits, gross	5.1	7.5	6.5	8.8	9.6	1.0	6.5
25. Nondeposit funds	-1.3	1.0	n.a.	-0.9	1.3	n.a.	n.a.
26. Net due to related foreign institutions, NSA	-1.6	0.5	n.a.	-0.1	4.2	n.a.	n.a.
27. Other[5]	0.2	0.5	n.a.	-0.8	-3.0	n.a.	n.a.
28. U.S. government deposits at commercial banks[6]	1.2	-0.3	-0.9	0.9	-2.6	-0.9	-2.3

1. Quarterly growth rates are computed on a quarterly average basis.
2. Figures in parentheses have been adjusted to remove the distorting effects since the beginning of 1981 of shifts of funds out of demand deposits and other accounts into NOW accounts. Based on a variety of evidence, it is estimated that 77-1/2 percent of inflows into other checkable deposits--in excess of "trend"--was from demand deposits in January, and 72-1/2 percent in subsequent months.
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. Excludes retail RPs.
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, loan RPs, and other minor items. Changes since October 1980 are partially estimated.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
n.a.--not available. e--estimated.

certificates (SSCs), as the rates paid on such certificates jumped following removal of the DIDC-mandated rate cap on August 1.[1] Thrifts, which can pay 25 basis points more than banks on SSCs, captured nearly four-fifths of the $10-1/2 billion August inflow. Growth in MMCs was $7-3/4 billion in August, somewhat less than in July. This slowdown probably was due in part to the 130 basis-point yield advantage of SSCs over MMCs during the month.

EFFECT OF RETAIL RPS ON SELECTED MONETARY MEASURES
(Retail RPs are not seasonally adjusted)

Month	Savings and small time deposits: Excluding retail RPs	Savings and small time deposits: Including retail RPs	M2	M2 plus retail RPs
	Percentage change at annual rates			
May	2.7	3.4	3.7	4.1
June	2.2	3.3	4.1	4.8
July	-1.1	1.6	7.5	9.3
Aug.	3.2	6.7	12.8	15.1
Sept. (est.)	3.8	7.9	9.9	12.5

Retail repurchase agreements (RPs of less than $100,000) expanded rapidly in August and early September, likely restraining the growth of M2. Retail RPs were promoted in the early summer, especially by S&Ls, and more recently have been marketed aggressively in connection with the scheduled introduction of the "All Savers Certificates" (ASCs) on October 1. Retail RPs totaled $11.1 billion at all depository institution on August 31. S&Ls have sold the majority of these instruments, but appreciable amounts also have been issued by small commercial banks.[2] It seems probable that retail

1. The maximum yield on SSCs was capped at 11-3/4 and 12 percent at banks and thrifts, respectively, in February 1980.
2. As of August 31, 1981, outstanding retail RPs amounted to about $6.2 billion at S&Ls, $1.3 billion at MSBs, and $3.6 billion at commercial banks. Estimates based on a sample of S&Ls indicate that retail RPs increased $700 million in the first ten days of September. In addition, retail RPs are estimated to have increased by $1.1 and $0.3 billion at commercial banks and MSBs, respectively, during the first 16 days of September.

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

	1980		1981					Aug. 80 to
	Q3	Q4	Q1	Q2	June	July	Aug.	Aug. 81
			-------- Commercial Bank Credit ------					
1. Total loans and investments at banks[2]	12.9	14.6	7.8	7.3	5.7	5.7	10.3	10.2
2. Investments	20.5	11.9	10.5	6.2	7.5	5.7	4.9	9.2
3. Treasury securities	39.1	11.1	14.8	15.7	18.4	11.1	-10.0	13.0
4. Other securities	11.5	12.3	8.2	1.3	1.6	2.7	13.1	7.2
5. Total loans[2]	10.2	15.6	6.9	7.7	5.3	5.4	12.3	10.5
6. Business loans[2]	15.4	21.0	6.6	10.1	15.3	17.6	20.1	15.0
7. Security loans	-10.2	60.1	27.3	36.2	23.9	-58.5	-110.8	12.7
8. Real estate loans	4.5	11.0	9.4	7.3	5.3	6.2	9.7	8.9
9. Consumer loans	-7.6	-0.2	-1.4	-1.1	1.4	-0.7	-1.4	-1.0
		-- Short- and Intermediate-Term Business Credit --						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	8.9	14.5	13.9	14.8	21.5	20.7	n.a.	n.a.
11. Business loans net of bankers acceptances	14.3	24.2	5.8	9.0	14.3	17.8	23.6	15.8
12. Commercial paper issued by nonfinancial firms[3]	-19.3	-3.0	30.7	40.9	82.9	7.8	77.1	24.6
13. Sum of lines 11 & 12	10.3	21.2	8.3	12.6	22.0	16.5	30.1	16.8
14. Line 13 plus loans at foreign branches[4]	9.6	19.6	11.6	12.7	22.3	18.4	32.0	17.4
15. Finance company loans to business[5]	-4.6	14.6	8.5	19.3	30.8	26.8	n.a.	n.a.
16. Total bankers acceptances outstanding[5]	21.0	-15.7	35.6	23.1	5.8	28.9	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. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestic-chartered banks.
5. Based on average of current and preceding ends of months.
n.a.--not available.

RPs have substituted primarily for savings and small time deposits, but they are not included in M2. They are included in M3, however, and the recent incorporation of the newly available data on retail RPs raised M3 still further above its 1981 growth range.

Growth in bank credit picked up in August to a 10-1/4 percent annual rate, but apparently dropped back in early September. Commercial banks ran off Treasury securities in August and early September, while acquiring other securities. Business loans paced a sharp acceleration in bank loan portfolios in August, and real estate lending was stronger as well. Security loans contracted sharply in August; reporting dealers pared their security holdings during the month, and the amount of customer margin indebtedness at broker/dealers for the purpose of carrying equities declined sharply.

Business Finance

The large increase in business loans at banks in August reflected in part takedowns of commitments arranged to finance recent merger acquisitions. However, abstracting from merger-related loans, business loan growth still matched the brisk pace of the preceding two months. The persistent strength of business loans, which was widespread by industry, reflected a general desire to defer longer-term financing as rates for such financing soared to unprecedented levels; firms also tapped other short-term credit sources in volume. In September, loan growth at large banks slowed somewhat but issuance of nonfinancial commercial paper continued very strong.

Public offerings of corporate bonds fell in August to their lowest level since July 1976. Although utility offerings increased sharply in September, total public offerings of bonds remained well below the pace of the first half of the year. A large proportion of bond offerings has

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

	1981				
	QI	Q2	July	Aug.p	Sept.p
	-------- Seasonally adjusted -------				
Corporate securities--total	5,942	6,886	3,884	3,000	4,000
Publicly offered bonds[1]	3,443	3,007	1,544	1,000	2,400
Privately placed bonds	523	843	383	700	700
Stocks	1,976	3,036	1,957	1,300	900
	-------Not seasonally adjusted------				
Publicly offered bonds--total[1]	3,038	3,597	1,925	1,000	2,200
By quality[2]					
Aaa and Aa	914	1,333	850	350	855
Less than Aa[3]	2,124	2,264	1,075	650	1,345
By type of issuer					
Utility	1,125	1,275	1,154	375	1,420
Industrial	1,289	1,383	513	325	320
Financial	624	939	258	300	460
Memo Items:					
Convertible bonds	439	491	130	260	60
Original discount bonds					
Par value	167	1,175	700	190	340
Gross proceeds	85	480	327	78	168
Stocks--total	1,889	2,850	1,757	1,000	1,000
By type of issuer					
Utility	499	1,012	412	300	300
Industrial	1,186	1,425	772	550	500
Financial	204	413	573	150	200

p--preliminary.
1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Bonds categorized according to Moody's bond ratings.
3. Includes issues not rated by Moody's.

SELECTED SOURCES OF SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Monthly totals or monthly averages, billions of dollars)

Period	Commercial banks[1]	Finance companies	Nonfinancial comm. paper	Bankers acceptances	Total
	--------------Seasonally adjusted net change------------				
1979	3.8	0.7	0.9	0.9	6.3
1980	2.9	0.1	0.7	0.9	4.6
1981-Q1	2.7	0.5	1.0	1.6	5.8
Q2	2.5	1.2	1.1	1.1	5.9
June	4.1	1.9	3.0	0.3	9.3
July	5.5	1.7	0.3	1.5	9.0
Aug.	7.3	n.a.	3.0	n.a.	n.a.

1. Total business loans (including foreign branch loans of U.S. chartered banks to U.S. residents) excluding acceptances.
n.a.--not available.

continued to be by lower rated corporations; yield spreads have not widened further, however, with the rise in rates. Gross stock offerings also have been curtailed in recent months, and merger-related redemption of shares have resulted in a contraction in outstanding stock.

Major indexes of share prices have plummeted since the August FOMC meeting, especially the AMEX index which heavily reflects issues of U.S.- and Canadian-owned oil and gas companies. At the end of August, more than $7 billion in stocks were held in margin accounts that had less than 40 percent customer equity and were especially vulnerable to margin calls in the event of further price declines. As a result, the drop in stock prices in September triggered heavy margin calls, and as usual a portion of these calls were met, according to industry sources, by selling securities.

Aggregate indicators of financial difficulties show that many firms continue to be under considerable strain.[1] For example, the recent pace of

1. In addition, responses to supplemental questions in the mid-August Senior Loan Officer Opinion Survey indicated some deterioration in the financial condition of customers and in the average creditworthiness of applicants for new business loans (See Appendix III-A).

FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING[1]
(Total for period; billions of dollars)

	Aug.	Sept.[e]	FY81[e]	Q4[f]
Treasury financing				
Combined surplus/deficit(-)	-6.1	2.8	-79.9	50.5
Net marketable borrowings/ repayments(-)	7.4	8.3	87.7	37.2
Bills	2.3	3.1	22.6	20.0
Coupons	5.1	5.2	65.1	17.2
Nonmarketable borrowings/ repayments(-)	-.9	-1.5	-10.1	-3.1
Other means of finance[2]	-6.0	2.7	-.7	7.4
Change in cash balance	-5.6	12.3	-3.0	-9.0
Federally sponsored credit agencies net cash borrowing[3]	5.4	5.3	38.0	11.0

1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Farm Credit Bank System.
e--estimated.
f--forecast.

business bankruptcy filings has moderated only slightly from the record highs set this spring, and the number of business failures, reported by Dun & Bradstreet, has remained high. The number of failures through August is 40 percent above the comparable period of 1980.

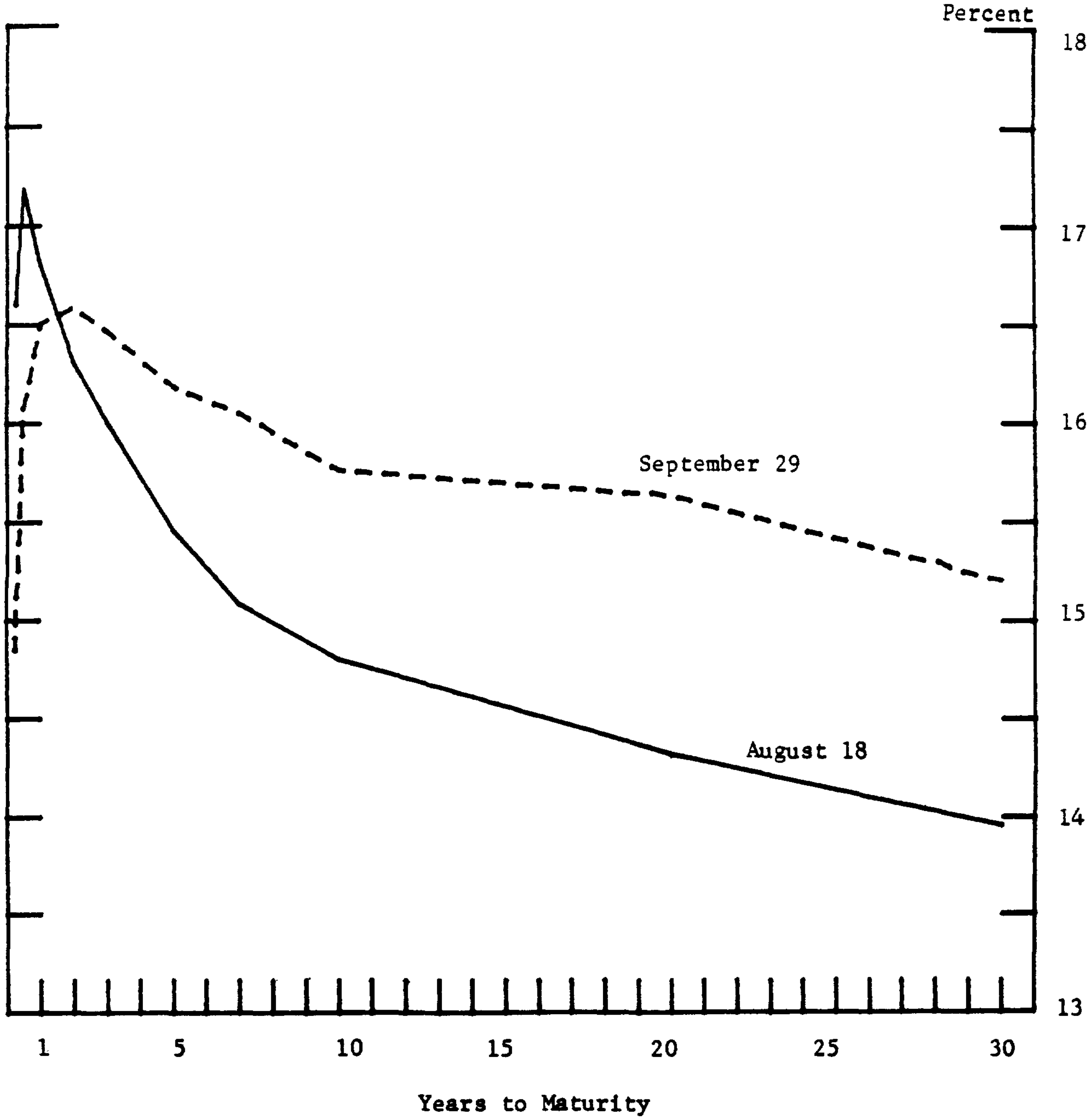
Government Finance

The federal government probably had a combined-budget surplus in September of roughly $3 billion, reflecting seasonally heavy tax payments. Nevertheless, the Treasury borrowed more than $8-1/4 billion in the market, since it needed to build up its cash balance in anticipation of a large fourth-quarter deficit. Federally sponsored credit agencies borrowed about $5-1/4 billion in both August and September, nearly four-fifths of which was raised by the FHLBs to finance advances to thrift institutions. FNMA raised about $1 billion in each month.

These financings completed a program of heavy borrowing during fiscal 1981. The unified deficit is estimated to have been about $59 billion for the year, and the off-budget deficit is estimated at nearly $21 billion (or $7 billion higher than in fiscal 1980). Moreover, the Treasury's market borrowing requirements--swollen by continuing redemptions of savings bonds, foreign series obligations, and other nonmarketable securities--totaled nearly $88 billion. Sponsored credit agencies borrowed $38 billion in fiscal 1981, $16 billion more than the then-record amount in the preceding fiscal year.

The current and prospective volume of Treasury and sponsored agency financing continues to concern market participants. Despite the downward movement in short-term rates, evidence of sluggish economic activity, and modest growth in narrow money, intermediate- and longer-term interest rates

III-12
TREASURY SECURITY YIELD CURVES



rose to new highs in early September--and returned to those, or higher, levels after President Reagan's budget-cut speech. Moreover, Treasury bill futures quotes indicate that market participants' current expectations for short-term rates are currently higher and decline less than in mid-August.

TREASURY BILL FUTURES RATES
(Percent)

Delivery month	FOMC Aug. 18	Sept. 29	Change
December 1981	14.16	14.64	+.48
September 1982	12.87	14.08	+1.21

As a result of recent rate movements, the Treasury yield curve has flattened significantly (see chart on page III-12). The difference in yield between the curve's current peak at two years and its lowest point at 30 years is about 140 basis points compared with nearly 350 basis points in mid-August.

Yields on tax-exempt securities also posted new record highs during the intermeeting period. Quality spreads widened somewhat as well, but they are not especially large by historical standards. Despite the overall increase in tax-exempt yields, the volume of both short- and longer-term municipal financings has remained sizable in recent months, especially revenue issues--such as those of municipal electric authorities--which typically are less sensitive to interest rate movements.

Institutional investors that traditionally purchase intermediate- and long-term tax-exempt securities--mainly property/casualty insurers and banks--have pared their acquisitions in recent months. This cutback, together with the recently enacted tax legislation that reduced the attractiveness of tax-exempt income, has contributed to a sharp increase in the ratio of tax-exempt to taxable bond yields (see chart on page III-20).

GROSS OFFERINGS OF TAX-EXEMPT SECURITIES
(Monthly totals or monthly averages, billions of dollars)

	1980	1981			
	Year	H1	July	Aug.[e]	Sept.[e]
	---------Seasonally adjusted---------				
Total	6.2	6.5	5.7	4.8	7.4
Long-term	4.0	3.7	3.3	3.0	4.0
Short-term	2.2	2.8	2.4	1.8	3.4

e--estimated.

Mortgage Markets

Conditions in the residential mortgage markets have tightened further since the last FOMC meeting. Primary home mortgage rates are at record levels, averaging over 18 percent nationwide at S&Ls on commitments for fixed-rate loans; the ceiling rate on FHA/VA level payment loans was raised to 17-1/2 percent in mid-September, its second full-point increase in less than four weeks. However, the average contract rate (excluding fees and charges) on all types of conventional home mortgage loans closed was about 14-7/8 percent in August. The sharp difference between the interest rates on new commitments and on loan closings partly reflects takedowns of commitments made earlier at lower rates--as well as the variety of types of loans made--but it also suggests that some lenders have been quoting very high rates on new fixed-rate commitments to discourage this type of transaction.[1]

1. There are reports of lenders making loans at below market rates to buyers, to facilitate sales by buyers to whom the lender has extended construction loans.

Use of nontraditional financing techniques continues to grow. For example, partial returns from a national survey suggest that less than half of recent home mortgage loans at S&Ls carried fixed interest rates, with one-third of the fixed-rate loans involving a builder "buydown." Also, a recent study of resale transactions suggests that a majority of existing-home sales now entail assumptions of first trusts and/or owner takebacks of second mortgages. The second mortgages are typically interest-only loans for three to five years that carry a "balloon" principal repayment upon maturity.

Thrift institutions that in the past accounted for a large proportion of mortgage lending activity have continued to experience weak deposit flows and earnings pressures. Although savings and small time deposits at thrift institutions edged up in September, this followed three consecutive months of contraction, and thrifts have continued to turn elsewhere for funds to support their activities. However, many sources of such financing have become more expensive--or unavailable to weaker institutions. Large CDs of S&Ls currently yield as much as 100 basis points more than comparable CDs of large commercial banks, and S&Ls have curtailed their issuance. Moreover, "other borrowings" by S&Ls, excluding retail RPs, contracted in both July and August. Consequently, FHLB advances have continued to expand rapidly. Also, the Federal Reserve System announced in late August that thrifts and other depository institutions experiencing protracted liquidity problems can receive special extended credit at the discount window. As of late September, eight thrifts had received such credit amounting to nearly $350 million, and a number of other institutions had applied for loans under the program.

NET INCOME TO AVERAGE ASSETS AT S&Ls AND MSBs

	Insured S&Ls	All operating MSBs
	----------Percent, annual rate----------	
1970 - 1976 average	.64	.44
1977	.77	.55
1978	.82	.61
1979-H1	.69	.54
H2	.65	.38
1980-H1	.17	-.04
H2	.10	-.20
1981-H1p	-.49	-.64

p - preliminary.

SECONDARY MARKET FOR HOME MORTGAGES

		FNMA auctions of forward purchase commitments[1]						
		Conventional			FHA/VA			Yield on GNMA securities for immediate delivery[2] (percent)
		Amount ($ millions) Offered	Amount ($ millions) Accepted	Yield to FNMA (percent)	Amount ($ millions) Offered	Amount ($ millions) Accepted	Yield to FNMA (percent)	
1980--High		426	133	17.51	644	324	15.93	14.41
Low		29	20	12.76	97	52	12.28	10.79
1981--High		316	168	19.22	257	182	19.23	17.46
Low		12	11	14.83	58	30	14.84	13.18
Aug.	3	316	168	16.94	250	182	17.26	16.55
	10	--	--	--	--	--	--	16.04
	17	308	84	17.19	257	113	17.24	16.21
	24	--	--	--	--	--	--	17.28
	31	238	53	18.65	183	42	18.37	17.26
Sept.	9	--	--	--	--	--	--	17.41
	14	86	47	19.06	103	34	18.74	17.05
	21	--	--	--	--	--	--	16.33
	28	35	21	19.22	43	30	19.23	17.46

1. Auction yields on fixed-rate level-payment loans are gross, before deduction of 38 basis points for mortgage servicing.

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

Preliminary data for the first half of 1981 suggest that the ratio of net income to average assets fell sharply at S&Ls and MSBs, and the staff estimates that these ratios will decline an additional 25 to 45 basis points in the second half if interest rates remain at their current levels.

Burdened by continued weak deposit flows and profitability problems, thrifts have further curtailed their mortgage lending activity.[1] At S&Ls, *new commitments for mortgages* fell sharply in August to $3.3 billion (nearly 50 percent below the pace just four months earlier), and outstanding commitments were at their lowest level since the summer of 1980. The liquidity ratio for FSLIC-insured S&Ls fell to 8.1 percent--its lowest level since October 1974--although this decline partly reflects the increase in retail RPs that has tied up government securities as collateral. In contrast, MSBs have been acquiring liquid assets in recent months, and the MSB liquidity ratio is currently at a record high level.

The recent escalation of mortgage interest rates has made the origination of mortgages for delivery more difficult, and secondary market activity has dwindled in recent weeks. Average volume in FNMA auctions of forward purchase commitments has fallen off sharply, and volume in other key secondary markets for mortgages has slackened also.

Consumer Installment Credit

Consumer installment credit growth continued in July at about the pace recorded in the first half of 1981. In August, installment credit outstanding at commercial banks edged higher, while such lending by finance

1. Appendix III-B discusses the prospective impact of "All Savers Certificates" on thrift institutions and the mortgage market.

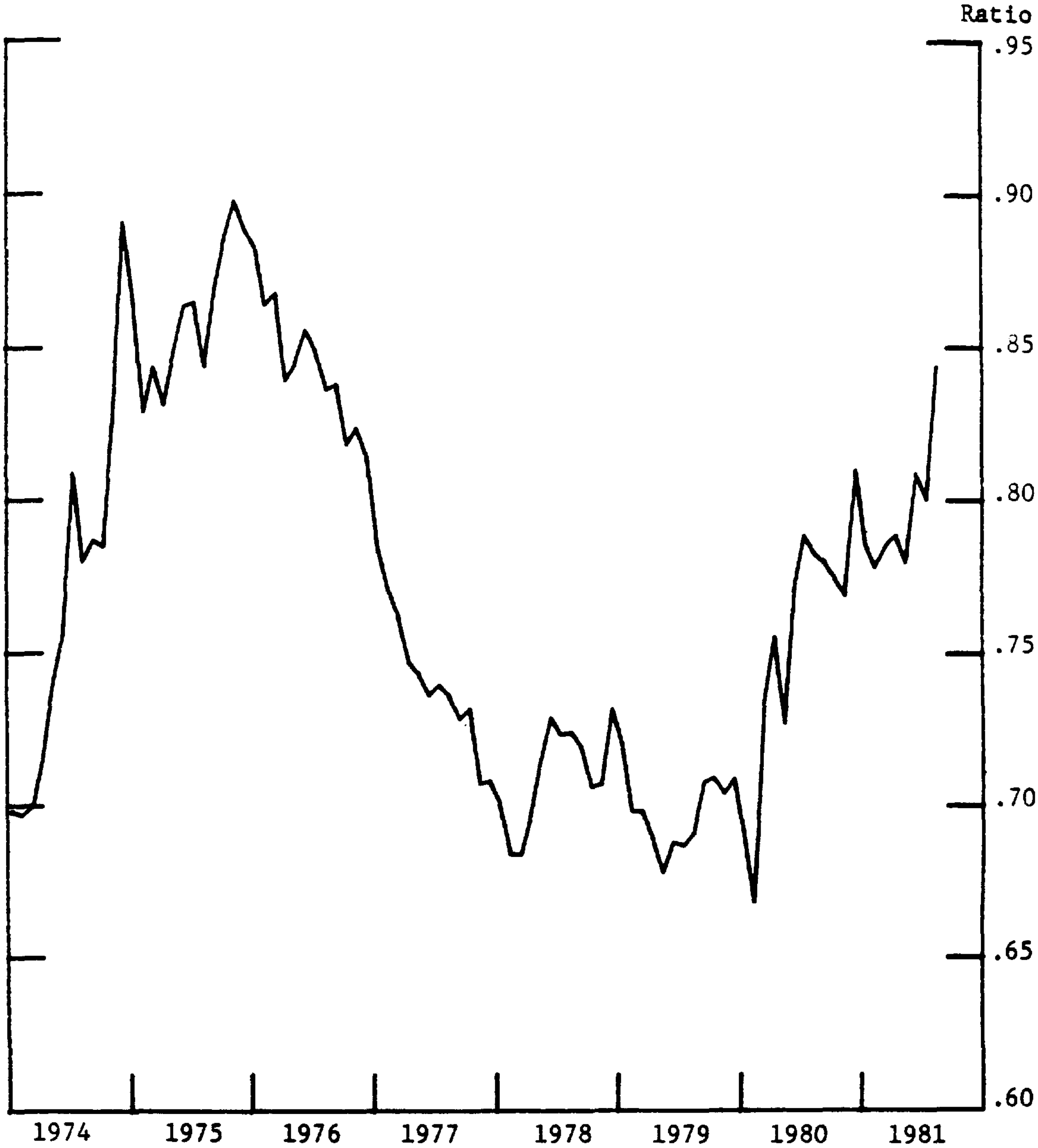
CONSUMER INSTALLMENT CREDIT
(seasonally adjusted annual rates)

	1979	1980	1981 Q1	1981 Q2	1981 June	1981 July
	- - - - - Percent rate of growth - - - - -					
Change in outstandings -- total	14.0	0.5	7.8	7.1	7.3	7.3
By type:						
Automobile credit	14.5	0.0	8.9	1.0	0.6	12.2
Revolving credit	19.9	5.5	11.3	15.3	20.8	9.6
All other	12.1	-2.9	13.3	13.8	7.6	2.3
	- - - - - - Billions of dollars - - - - - -					
Change in outstandings -- total	38.4	1.4	23.9	22.4	23.2	23.5
By type:						
Automobile credit	14.7	0.0	10.4	1.2	0.7	14.5
Revolving credit	8.6	2.9	6.3	8.8	12.2	5.7
All other	15.1	-1.5	7.2	12.4	10.3	3.3
By major holder:						
Commercial banks	18.2	-8.4	-5.2	1.0	7.4	5.2
Finance companies	14.0	8.4	16.7	8.9	6.8	11.4
All other	6.2	1.4	12.4	12.5	9.0	6.9
Extensions -- total	324.8	305.9	342.3	344.1	348.1	345.0
By type:						
Automobile credit	93.9	83.0	97.1	87.9	89.3	98.1
Revolving credit	120.2	129.6	141.7	147.7	152.0	146.3
All other	110.7	93.3	103.5	108.5	106.8	100.6
Liquidations -- total	286.4	304.5	318.5	321.7	324.9	321.6
Memo: Ratio of liquidations to disposable income (percent)	17.5	16.7	16.4	16.2	16.3	15.9

companies may have accelerated somewhat as auto sales were spurred by sales incentives. The proportion of total retail sales financed with new credit extensions remained moderate through July, suggesting that consumers still had considerable untapped borrowing capacity at their disposal. In August, a nationwide survey of households suggested that both the proportion of families holding credit cards and the percentage that uses them were the same as in 1978, despite last year's consumer credit restraint program that impinged mainly on revolving credit services.

Most measures of payment difficulties on consumer installment credit revealed further modest improvement in the second quarter. The delinquency rate on closed-end loans at commercial banks continued downward; new auto loan delinquencies at finance companies fell to the lowest rate since 1976; and the number of personal bankruptcy cases plateaued although at a level much higher than before the liberalized Bankruptcy Code took effect in late 1979. In contrast, the percentage of home mortgages that is seriously delinquent continued to rise, although less rapidly than in 1980; at S&Ls, mortgage delinquencies in August were the highest since late 1976.

RATIO OF TAX-EXEMPT TO TAXABLE YIELDS[1]
(Monthly)



1. The tax-exempt yield series is based on the Bond-Buyer general obligation index. The taxable yield series represents the constant-maturity Treasury index.

Appendix III-A*

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES

Of the 60 large banks participating in the August 15th Senior Loan Officer Opinion Survey on Bank Lending Practices, 25 expected a pickup in business loan demand over the next three months, while only 8 anticipated weaker demand. Business loans had been growing rapidly for some time prior to the August survey, and the continuing weakness of the bond markets may have been a factor pointing toward further strength. Some respondents expected merger activity to continue to boost business loan demand in coming months.

At the time of the August survey, the prime rate stood nearly 100 basis points above its mid-May level, and the spread of the prime rate over the commercial paper rate was substantially wider than in May. However, the survey suggests that the rise in the prime rate was offset to some extent by other changes in bank lending practices. Almost one-sixth of the survey panel indicated that over the May-August period they had relaxed standards of creditworthiness to qualify for the prime rate. Nearly two-fifths reported that they had eased standards for given spreads above prime. In addition, almost half of the survey panel reported a reduction in compensating balance or fee requirements for C&I loans. Very few banks indicated that they had tightened the aforementioned terms of lending. Meanwhile, the number of respondents reporting an easier stance on lending to new and nonlocal customers was about equal to the number indicating a more restrictive approach. Several respondents commented that the easing of lending terms reported in this and several previous surveys was part of an effort to meet intense competition from foreign-related institutions for both national and regional business. Competition with the commercial paper market also was cited.

For the first time since the August 1980 survey--the first survey following dismantlement of the special credit restraint program--respondents reporting reduced willingness to make consumer installment loans failed to outnumber greatly those indicating increased willingness. Several respondents to the latest survey commented that a rise in usury ceilings in their states had revived their interest in consumer loans.

Three supplemental questions (see table on page III-B-4), addressed the reactions of banks to a deterioration, if any, in the financial condition of borrowers in the environment of high interest rates and slack economic activity that prevailed over the six months preceding the survey. More than two-fifths of the survey panel reported a deterioration over the previous six months in the financial condition of an above-normal proportion of customers to whom they had business loans outstanding. Of these banks, nearly one-half indicated that they had reacted both by requesting additional collateral and by restructuring payment schedules, while the remainder had taken one or the other of these actions.

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

Nearly one-third of respondents reported a decline over the previous six months in the average creditworthiness of applicants for new business loan extensions.[1] Almost 80 percent of those so reporting indicated that they had reacted by rejecting a higher proportion of applicants. The remainder had tailored loan agreements appropriately for borrowers in strained financial condition.

Less than one-fifth of the survey panel reported increases over the previous six months in delinquency rates on residential mortgages or on installment loans to individuals. Those so reporting had reacted by intensifying their collection efforts, by repossessing collateral, and by restructuring payment schedules. Equal or greater numbers of respondents reported a drop in delinquency rates on mortgages and installment loans from peak rates observed last December and January. Many of these respondents indicated that, around the turn of the year, they had tightened their standards for lending to consumers and had stepped up their collection efforts, thereby helping to improve repayment performance.

1. Several respondents remarked that the average financial condition of new applicants had not deteriorated, but that a reduced proportion of applicants had been deemed able to bear the high interest rates prevalent over the previous six months.

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.

(Status of policy on August 15, 1981 compared to three months earlier)
(Number of banks and percent of total banks answering question)
(By size of total domestic assets, in billions)

CORE QUESTIONS

	Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Easier		Much Easier		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
1. Strength of demand for commercial and industrial loans anticipated in next 3 months (after allowance for usual seasonal variation):											
All respondents	0	0.0	25	41.7	27	45.2	8	13.3	0	0.0	60
$5 and over	0	0.0	12	50.0	10	41.7	2	8.3	0	0.0	24
under $5	0	0.0	13	36.1	17	47.2	6	16.7	0	0.0	36

	Much Firmer		Moderately Firmer		Essentially Unchanged		Moderately Easier		Much Easier		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
2. Standards to qualify for prime rate:											
All respondents	0	0.0	1	1.7	50	83.3	9	15.0	0	0.0	60
$5 and over	0	0.0	1	4.2	19	79.2	4	16.7	0	0.0	24
under $5	0	0.0	0	0.0	31	86.1	5	13.9	0	0.0	36
3. Standards to qualify for spread above prime:											
All respondents	0	0.0	1	1.7	36	60.0	23	38.3	0	0.0	60
$5 and over	0	0.0	1	4.2	13	54.2	10	41.7	0	0.0	24
under $5	0	0.0	0	0.0	23	63.9	13	36.1	0	0.0	36
4. Stance on C&I lending to new and nonlocal Customers											
All respondents	0	0.0	6	10.0	47	78.3	7	11.7	0	0.0	60
$5 and over	0	0.0	3	12.5	18	75.0	3	12.5	0	0.0	24
under $5	0	0.0	3	8.3	29	80.8	4	11.1	0	0.0	36
5. Compensating balance or fee requirements for C&I loans:											
All respondents	0	0.0	2	3.3	30	50.0	28	46.7	0	0.0	60
$5 and over	0	0.0	1	4.2	11	45.8	12	50.0	0	0.0	24
under $5	0	0.0	1	2.8	19	52.8	16	44.4	0	0.0	36

	Considerably Greater		Moderately Greater		Essentially Unchanged		Moderately Less		Much Less		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
6. Willingness to make installment loans to individuals:											
All respondents	1	1.7	6	10.2	44	74.6	5	8.5	3	5.1	59
$5 and over	1	4.3	3	13.0	17	73.9	1	4.3	1	4.3	23
under $5	0	0.0	3	8.3	27	75.0	4	11.1	2	5.6	36

S.1 With regard to commercial and industrial lending, if there has been a deterioration over the last six months in the financial condition of an above-normal proportion of customers to whom your bank has loans outstanding, how has your bank responded?

	No Unusual Deterioration		Additional Collateral		Restructure Payments		Collateral and Restructure		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	34	56.7	7	11.7	8	13.3	11	18.3	60
$5 and over	13	54.2	3	12.5	4	16.7	4	16.7	24
under $5	21	58.3	4	11.1	4	11.1	7	19.4	36

S.2 With regard to commercial and industrial lending, if there has been a deterioration over the last six months in the average financial condition of applicants for new loan extensions from your bank, how has your bank responded?

	No Unusual Deterioration		Increase Rejections		Design Loans Appropriately		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	41	68.3	15	25.0	4	6.7	60
$5 and over	15	62.5	8	33.3	1	4.2	24
under $5	26	72.2	7	19.4	3	8.3	36

S.3 With regard to mortgage and installment loans to individuals[1], if there has been an increase over the last six months in the delinquency rate at your bank, how has your bank responded?

	Delinquencies Unchanged		Delinquencies Decreased		Repossess Collateral		Restructure Payments		Repossess and Restructure		Intensify Collections		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
Mortgages													
All repondents	37	62.7	11	18.6	3	5.1	1	1.7	2	3.4	5	8.5	59
$5 and over	14	60.9	7	30.4	0	0.0	0	0.0	0	0.0	2	8.7	23
under $5	23	63.9	4	11.1	3	8.3	1	2.8	2	5.6	3	8.3	36
Installment Loans													
All respondents	34	57.6	17	28.8	2	3.4	1	1.7	3	5.1	2	3.4	59
$5 and over	10	43.5	11	47.8	0	0.0	0	0.0	2	8.7	0	0.0	23
under $5	24	66.7	6	16.7	2	5.6	1	2.8	1	2.8	2	5.6	36

1. As of December 31, 1980, there were 24 banks having domestic assets of $5 billion of more. Their combined assets, in billions, totalled $434, compared to $540 for the entire panel and $1,527 for all insured commercial banks.

Appendix III-B*

IMPACTS OF THE ALL SAVERS CERTIFICATE

Under the Economic Recovery Act, depository institutions will be issuing savings certificates bearing tax-exempt interest during the 15-month period beginning October 1, 1981 and ending December 31, 1982. To qualify for the tax exemption, these "All Savers Certificates" (ASCs) must have a one-year maturity and an interest rate equal to 70 percent of the investment yield on one-year Treasury bills established at the most recent auction.[1] The rate on ASCs issued between October 1 and October 4 will be 12.61 percent; a new ASC rate beginning October 5 will be established by the one-year Treasury bill auction scheduled for October 1. Institutions issuing the certificates must invest 75 percent of either the ASC proceeds or the net increase in small-denomination deposits in mortgages, mortgage-related securities, or agricultural loans.[2] The tax exemption on ASC interest income is limited to $1,000 for an individual taxpayer and $2,000 for taxpayers filing a joint return. The impacts of the ASC on deposit flows, the monetary aggregates, thrift earnings, costs to the Treasury, and the mortgage market are discussed below.

Deposit Flows. Deposit flows into the ASC will be constrained significantly by the maximum $1,000/$2,000 lifetime tax exclusion. This limitation, coupled with the current high level of interest rates, places an effective ceiling on the amount worthwhile to deposit in an ASC of $7,930 for an individual taxpayer and $15,860 for taxpayers filing a joint return. Given these limits, the staff estimates that the ASC will attract about $125 billion over the 15-month period it is available. About 60 percent of this inflow should occur in the fourth quarter of 1981.

About $100 billion of the funds placed in ASCs will be shifted from other consumer-type deposits. In particular, transfers from six-month

* Prepared by Michael Moran, Economist, Capital Markets Section, Division of Research and Statistics.

1. The tax act also requires that the certificates be issued in denominations of $500. However, under the interpretation of the statute by the Depository Institutions Deregulation Committee, this requirement does not impose a minimum denomination on ASCs. Institutions must offer a $500 ASC, but they also may issue denominations above or below $500.

2. Specifically, the tax act requires that at least 75 percent of the lesser of (1) the proceeds from ASCs issued during a calendar quarter or (2) the net increase--including interest credited--in saving and small time deposits during a calendar quarter be used to provide "qualified residential financing" by the end of the subsequent calendar quarter. The statute also provides a list of investments that are considered as qualified residential financing.

money market certificates (MMCs) should dominate the inflow since the maturity of the MMC is similar to the ASC and MMC holders are likely to be in relatively high income tax brackets. The regulatory agencies have facilitated this process by permitting holders of MMCs to convert to the tax-exempt certificate without incurring early withdrawal penalities, and most of this shifting consequently is expected to occur early in the fourth quarter. The transfer of funds from retail RPs will be another important source of ASC inflow, with about 65 percent of the estimated $15 billion of retail RPs outstanding at depository institutions at the end of September expected to shift. Some funds probably will be diverted from 2-1/2 year small savers certificates and other small time deposits; indeed, some savers may withdraw early from these accounts and reinvest the funds in an ASC. Large-scale transfers from savings accounts are not anticipated, given the relative illiquidity of ASCs resulting from the penalties that would apply to early withdrawals.[1]

The staff estimates that about $25 billion will be attracted into ASCs from sources outside depository institutions such as money market mutual funds, Treasury and municipal securities, corporate stocks and bonds, and new saving. In all cases, flows from these sources will be limited by the maximum $1,000/$2,000 tax exclusion and the likelihood that these investors also hold some form of time deposit that they will shift first. The largest inflow from outside sources will be from MMMFs, but the loss of liquidity involved with shifting to the ASC should constrain the transfers from money market funds. Shifts from the municipal market are not likely to be large since long-term municipal rates generally are greater than the return on ASCs, and the short-term municipal market--where the rates are below those on the ASC--is dominated by institutional investors that are ineligible to purchase the tax-exempt deposit. The volume of new saving generated by the ASC is likely to be quite small since the elasticity of new saving with respect to an increase in the after-tax rate of return is generally believed to be very low.

The Monetary Aggregates. Transaction accounts should not be affected by the ASC; thus, M1-B is expected to change insignificantly. The staff's current estimates of the volume and sources of ASC inflows imply an increase in the M2 annual growth rate of 2-1/4 to 2-1/2 percentage points in the fourth quarter of 1981 with an additional increase of 1/4 to 1/2 percentage points in 1982. Shifts from retail RPs are the major source of the fourth quarter expansion, accounting for about 2 percentage points of the increase. The growth rate of M3 will increase about 1/2 percentage point in 1981-Q4 with an additional increase of about 1/4 percentage point in 1982. The impacts of ASCs on the monetary aggregates should be transitory. When the certificates may no longer be issued, M2 and M3 should eventually return to their former paths as funds are reallocated to their previous location.

1. In the event of early withdrawal, a saver would lose the tax exemption on the account in addition to forfeiting three months of interest.

Earnings Impact. An improvement in thrift earnings will result primarily from the cost reduction associated with the shifting of funds from higher-yielding accounts. For example, at current interest rate levels, transfers from MMCs will reduce costs by 3-1/2 to 4 percentage points and the diversion of inflows from uncapped SSCs could result in interest savings of 5 to 6 percentage points. In addition, inflows into ASCs from sources outside the institutions could be reinvested at a spread of at least 4 to 5 percentage points. The combined impact of these influences on earnings is presented in table 1. Total thrift earnings (after tax) are expected to increase between $1.1 and $1.6 billion as a result of the ASC, with the bulk of the impact occurring in 1982. This improvement will not be sufficient to offset other factors depressing thrift earnings, and both S&Ls and MSBs continue to face the prospect of large losses in 1982. The corresponding increase in earnings at commercial banks is estimated to be about $3/4 billion.

Costs to the Treasury. The earnings benefit to depository institutions is small in comparison to the revenue loss to the Treasury, estimated by the staff to be $4 to $6 billion. A substantial portion of this revenue loss will be recouped by the elimination of the $200/$400 interest and dividend exclusion in 1982. A small offset also is expected from higher income taxes or lower tax loss carrybacks associated with depositories' profit gains attributable to the ASC. On balance, the net cost to the Treasury is estimated between $1 and $3 billion.

Effects on the Mortgage Market. Despite the requirement to invest 75 percent of deposit flows in the mortgage or agricultural loan markets, it is not expected that the ASC will either significantly increase the availability or reduce the cost of residential financing. First, the investment requirement is tied to the lesser of ASC proceeds or the net increase in all categories of savings and small time deposits. Since small-denomination deposits have been very weak at thrifts in recent months, institutions may be able to meet the requirement with only negligible investments in new mortgages. Second, given the earnings problems at thrifts resulting from a mismatch between asset and liability maturities, institutions probably will seek to invest in shorter-term instruments. In this regard, the Federal Home Loan Bank Board is seeking to approve the purchase of GNMA securities with a commitment to resell after one year as a satisfactory ASC investment. Similarly, FNMA will issue a new one-year mortgage-related security that would qualify as an acceptable investment outlet for the ASC requirement. FNMA is likely to use the proceeds from this new instrument to retire its existing debt rather than expand its mortgage portfolio. Finally, the list of qualifying ASC investments is rather broad and will allow institutions to channel funds to sources only indirectly related to new mortgage activity. For example, home improvement loans, second mortgages, and agricultural loans may be used to fulfill the ASC investment requirement. With the limited flow of new funds to longer-term mortgage instruments, downward pressure on mortgage rates is not expected.

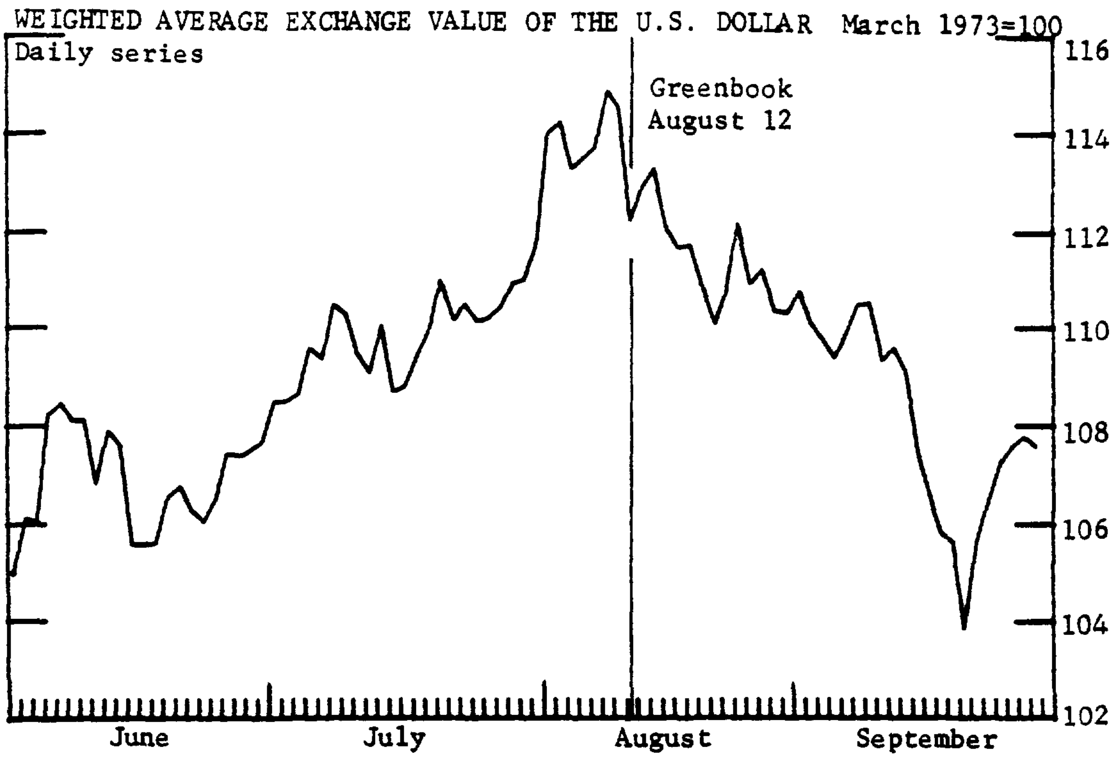
TABLE 1
IMPACTS OF THE ALL SAVER CERTIFICATES ON
THE AFTER-TAX EARNINGS OF DEPOSITORY INSTITUTIONS
(Billions of dollars)

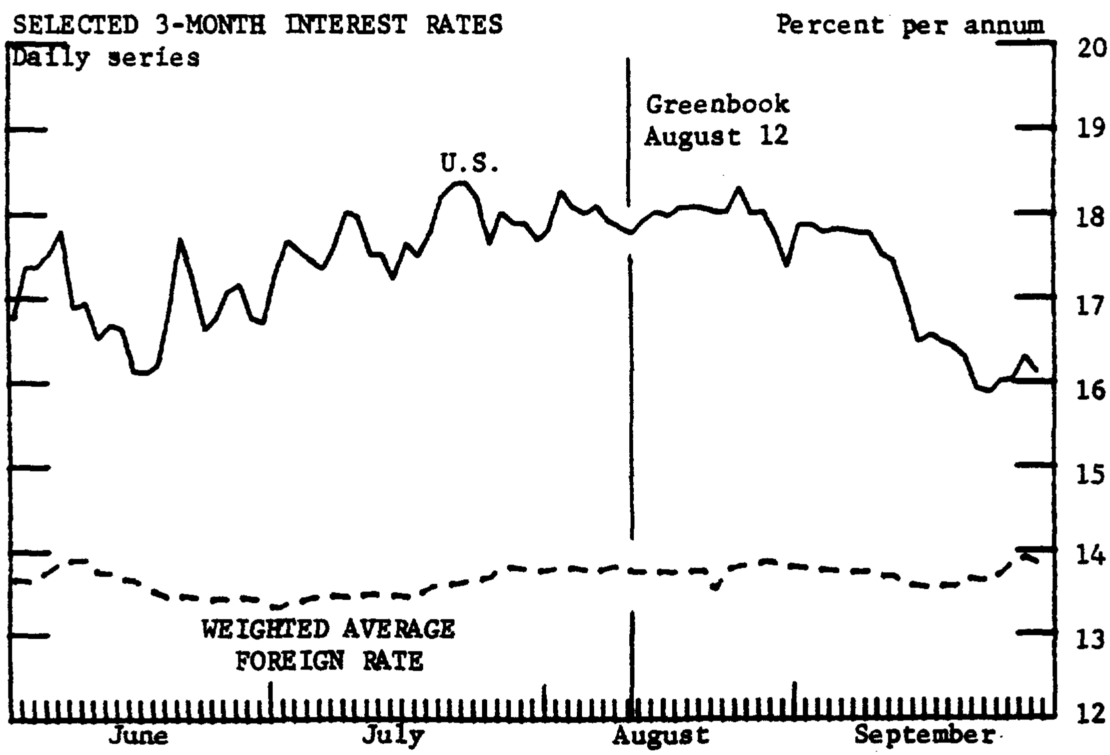
Type of institution	Net increase in earnings		
	1981	1982	Total
S&Ls	0.3-0.4	0.6-0.8	0.9-1.2
MSBs	0.0-0.1	0.2-0.3	0.2-0.4
Total thrift	0.3-0.5	0.8-1.1	1.1-1.6
Commercial banks	0.2	0.5	0.7

Foreign Exchange Markets

As shown by the chart on the next page, the weighted-average value of the dollar has declined by about 6-1/2 percent from the peak it reached around the time of the August Greenbook, first dropping by nearly 10 percent over a 6-week period and subsequently appreciating by about 3-1/2 percent. The depreciation through mid-September was associated with a decline in dollar interest rates and with market sentiment that the U.S. current account may swing more sharply into deficit than had previously been forecast. The depreciation was particularly sharp against the Continental European currencies, in part reflecting a tightening of monetary conditions in Switzerland along with official pronouncements that German interest rates will not be lowered until the mark has appreciated further and that the German current account deficit is now forecast to shrink more rapidly than had previously been predicted. The rise of the dollar since mid-September was partly attributed to actions by the Federal Reserve -- namely, a smaller-than-expected reduction of the discount-rate surcharge on September 22, statements by Chairman Volcker and Desk operations to drain reserves -- that were interpreted as signals that dollar interest rates would not be allowed to drop precipitously, as in the Spring of 1980.

On a bilateral basis the dollar has declined by about 10 percent against the Continental currencies since the August Greenbook date, by nearly 3 percent against the Canadian dollar, and by roughly 1-1/2 percent against the yen and the pound. The Canadian dollar was bolstered


WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR
March 1973=100
Daily series
Greenbook
August 12
116
114
112
110
108
106
104
102
June
July
August
September


SELECTED 3-MONTH INTEREST RATES
Percent per annum
Daily series
Greenbook
August 12
U.S.
WEIGHTED AVERAGE
FOREIGN RATE
20
19
18
17
16
15
14
13
12
June
July
August
September

by an announcement on September 1 that the Federal Government and the Province of Alberta had reached an agreement over oil production, pricing, and revenue sharing. The British authorities have pushed up short-term sterling interest rates by roughly two percentage points since the August Greenbook date to resist downward pressures on the pound that were partly associated with a softening of the outlook for oil prices and continuing political pressures for an easing of British policies.

During the period since the August Greenbook date the European Monetary System has withstood strong pressures.

The Swedish krona was devalued by 10 percent against a basket of currencies on September 14. During the 5 weeks prior to the devaluation Sweden sold dollars on a moderate scale.

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, and on September 1 the Treasury repaid from balances about $1/2 billion equivalent of mark-denominated Carter notes.

The price of gold has fluctuated widely during the last seven weeks, rising on balance from around $400 an ounce at the time of last month's Greenbook to a current level around $430.

Foreign lending by U.S. banks. Claims on foreigners held by domestic offices and foreign branches of U.S.-chartered banks rose briskly in the first half of 1981, increasing more rapidly than in either the first or second half of 1980. While net new lending to the G-10 countries slowed as compared with 1980 rates, net lending to the non-OPEC developing countries, the smaller developed countries, and offshore banking centers accelerated sharply.

Total U.S. bank claims on foreigners rose approximately $30 billion (8.7 percent) in the first half of 1981, more than the increases of about $25 billion (8.1 percent) in the first half of 1980 and $22 billion (6.6 percent) in the second half. Claims on G-10 countries and Switzerland, which are mostly on other banks, rose only $6 billion in the first half of this year -- less than one-half of the year-earlier amount -- largely because of an absolute decline in claims on the United Kingdom. However, the lower rate of lending to the G-10 countries in 1981 represents a return to a rate closer to those prior to 1980, following the sharp upsurge last year. By contrast, new lending to offshore banking centers in the first half of 1981, amounting to $11 billion, was abnormally large, being well in excess of the amounts lent in any full year 1976-80. Most of this acceleration was in claims on the Bahamas, Hong Kong, and Singapore. The $3.5 billion increase in claims on the smaller developed countries was also greater than even annual rates of lending to these countries in the past. The higher level of lending this year reflects greater U.S. bank participation in continued heavy international bank lending to Spain, along with drawdowns of large credits raised by Australia in 1980 and a resumption of positive net new lending by U.S. banks to South Africa.

CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(Billions of dollars)

Claims on	Increase: Year 1976-78 avge.	Increase: Year 1979	Increase: Year 1980	Increase: 1st Half 1980	Increase: 1st Half 1981	Out-standing June 1981
Total, all countries	37.0	37.6	46.4	24.7	30.4	380.6
G-10 and Switzerland	14.9	13.7	23.1	15.8	6.2	167.7
Smaller industrial countries	3.1	.5	1.4	.4	3.5	24.8
OPEC countries	5.6	.2	-.1	-2.0	-.6	22.2
Eastern Europe	1.1	.4	.1	-.1	.4	7.8
Non-OPEC developing countries	6.2	10.3	14.1	4.5	7.6	84.6
of which:						
Mexico	.6	1.2	3.9	1.6	2.2	18.1
Brazil	2.4	.3	1.0	.1	1.1	17.3
Korea	.6	1.5	1.7	1.7	1.6	8.7
Argentina	.4	2.0	2.9	.6	.6	8.5
Philippines	.4	1.4	.7	.4	.3	5.2
Taiwan	.4	.5	.8	.4	.5	4.7
Chile	.4	.9	1.2	.2	1.0	4.7
Others	1.0	2.3	1.9	-.5	.3	17.4
Offshore banking centers	3.9	9.4	6.2	3.9	11.2	57.8
Miscellaneous and unallocated	1.7	2.6	2.2	2.6	1.8	15.7

The \$7.6 billion rise in claims on the non-OPEC developing countries exceeded the year-earlier figure by \$3 billion. Larger increases this year than in the first half of 1980 were shown in particular by claims on Mexico, Brazil and Chile, all three of which raised much larger amounts through syndicated Eurocurrency credits than a year earlier. U.S. bank lending to Mexico, amounting to \$2.2 billion, continued to exceed that to other non-OPEC developing countries, and this year Mexico has replaced Brazil as the largest non-OPEC LDC borrower from U.S. banks in terms of outstanding claims.

U.S. International Transactions

U.S. Merchandise Trade. In August the U.S. merchandise trade deficit was substantially larger than in July. Only partial information is available now; a more complete trade summary will be included in the Greenbook Supplement. Exports declined somewhat from July levels, and the value of imports rose substantially. About one-third of the import increase was in oil as the volume imported rose to 6.4 million barrels per day from low July rates (see the table on the next page); the price of imported oil declined by nearly 70 cents per barrel to average close to $33 per barrel in August (9 percent below the April peak price). The remaining two-thirds of the August import increase was concentrated in manufactured goods, with increases in steel and foreign car imports accounting for only a small part of that rise.

U.S. Merchandise Trade*

	1981					
	1Q	2Q	July/Aug.	June	July	August 1/
Value (Bil. $, SAAR)						
Exports	224.4	241.9	230 e	239.4	234.9	226 e
Agricultural	50.9	44.3		41.0	38.2	
Nonagricultural	193.5	197.6		198.4	196.8	
Imports	263.1	269.6	265 e	264.8	246.2	285 e
Petroleum	83.3	84.8		84.1	66.2	
Nonpetroleum	179.8	184.8		180.7	180.0	
Trade Balance	-18.7	-27.7	-35 e	-25.4	-11.2	-59 e
Volume (Bil. 72$, SAAR)						
Exports - Agricultural	19.5	17.5	n.a.	16.5	15.7	n.a.
- Nonagric.	73.2	73.3	n.a.	73.7	71.3	n.a.
Imports - Petroleum	6.3	6.2	n.a.	6.2	5.1	n.a.
- Nonpetrol.	67.8	70.7	n.a.	69.7	69.4	n.a.

*/ International Transactions and GNP basis.
e/ Estimated
1/ August data will be available in the Greenbook Supplement (10/2/81).

When July and August are taken together, the trade deficit was only moderately larger than the second-quarter average. The value of exports fell about 5 percent. Declines in such items as agricultural commodities (particularly corn), civilian aircraft, and metals more than offset the strong pick-up in coal exports (following the strike) and in other items such as automotive shipments to Canada and construction machinery.

Imports in July-August combined declined an estimated 1 percent from the second-quarter level. A sharp decline in oil imports outweighed a 5 percent rise in nonoil imports. The volume of oil imported in July-August averaged 10 percent less than in the second quarter. Despite sharp month-to-month fluctuations, the trend in oil imports this year has been downward as a result of a drawdown of U.S. oil stocks as well as a continued decline in consumption.

1981 U.S. Oil Imports

	1Qtr.	2Qtr.	July/Aug.	June	July	August
Volume (mbd, SA)	6.59	6.52	5.9[e]	6.48	5.38	6.4[e]
Price ($/BBL)	34.63	35.62	33.35[e]	35.40	33.69	33.00[e]
Value (Bil.$,SAAR)	83.3	84.8	71.5[e]	84.1	66.2	77.0[e]

e/ Preliminary

The average price of imported oil declined by about $2.40 per barrel from June to August, reflecting the continued weakness in world oil markets. The August meeting of OPEC failed to reach an agreement on a unified OPEC oil price. Although the Saudis apparently were willing to increase their price by $2 per barrel in conjunction with corresponding decreases by other producers, they decided to freeze their price at $32/barrel in the absence of an agreement. At the same time, the Saudis cut production by 1 mb/d in September as a gesture of cooperation as well as to encourage price cuts by producers facing recent large declines in sales. Nigeria cut its oil price by $4/barrel (10 percent) following the OPEC meeting, and similar pressure exists for Libya and Algeria to reduce their prices.

The increase in nonoil imports in July-August (for which only partial information is now available) was concentrated in manufactured goods. Only a small part of the rise was in steel and automotive imports from Canada. The value of passenger car imports from Japan and Europe was the same as the second-quarter rate.

U.S. International Capital Transactions. Banks' daily average Eurodollar borrowing from their own foreign offices increased by $4 billion in August but fell in the first half of September. The August increase in Eurodollar borrowing was concentrated among the 10 largest U.S.-based banks.

Banking Positions Vis-a-vis Own Foreign Offices
(Billions of dollars, daily average, net due to foreign offices = +)

	1980	1981				
	Dec.	Mar.	June	July	Aug.	Sept.*/
All banks' net positions with own foreign offices	7.2	2.9	4.9	5.0	9.0	6.1
(a) 10 largest member banks	-5.2	-5.5	-4.8	-4.3	-1.2	-4.8
(b) All other U.S.-based banks	-9.4	-11.5	-9.4	-9.7	-8.7	-8.6
(c) Foreign-based banks	21.8	19.8	19.1	19.0	18.9	19.5
MEMO:						
Credit extended to U.S. nonbank residents by foreign branches of U.S. banks	4.2	7.0	7.1	7.7	8.6	8.8

SOURCE: Required-reserve reports
*/ Daily average through September 16.

Credit extended to U.S. nonbank residents by foreign branches of U.S. banks increased to a daily average of $8.6 billion in August. Mobil repaid in August the funds borrowed from foreign branches in July in connection with its attempted takeover of Conoco, but other U.S. nonbanks increased their borrowing. The continued differential between LIBOR and the prime interest rate (the prime exceeded LIBOR by an average of about 160 basis points in August) has encouraged the expansion of this borrowing.

Total Eurodollar holdings of U.S. nonbanks fell somewhat in June, in contrast to the sharp growth throughout the first five months of the year. However, partial data for July and August indicate that the growth has resumed. Foreign branches of U.S. banks reported a substantial increase in such deposits of about $9 billion in July. Holdings of Eurodollar CDs by money market mutual funds increased by about $2.5 billion during the two months, reaching a total of $16 billion.

Foreign official reserve assets in the United States decreased slightly in July. A decline in official holdings of U.S. Treasury securities ($1.7 billion) outweighed an increase in other assets.

OPEC holdings of official reserve assets in the United States increased by $2.4 billion in July; their holdings at the FRBNY increased an additional $0.8 billion in August. Almost half of the July increase was accounted for by Iran and was associated with the consolidation of frozen Iranian assets at the FRBNY in preparation for their transfer in August to Iran's agent bank in the Netherlands. The consolidation resulted in a net increase in liabilities to official Iran because some banks transferred larger sums than they had previously reported on their books as liabilities and because certain liabilities to "private" Iranians were also transferred.

U.S. official reserve assets declined in July because about $600 million equivalent in Swiss francs were payed out to retire U.S. Treasury liabilities denominated in that currency. $500 million equivalent in German mark-denominated notes were retired on September 1.

The U.S. current account surplus fell in the second quarter to a $4.3 billion annual rate. Most of the change resulted from the larger trade deficit recorded in the second quarter than in the first. In addition, net direct investment income receipts were reduced somewhat, largely as a result of slower growth abroad and the effect of the dollar appreciation on foreign earnings recorded in dollars, while net income on other service transactions increased.

U.S. Current Account
(In billions of dollars, seasonally adjusted annual rates)

	1980		1981		$-change
	Year	Q4	Q1	Q2	Q2-Q1
Current Account Balance	3.7	5.7	13.0	4.3	-8.8
Trade Balance	-25.3	-22.3	-18.7	-27.7	-8.9
Net Investment Income	32.7	33.0	36.2	34.6	-1.6
Direct	27.5	26.6	25.0	23.8	-1.2
Other	5.2	6.4	11.2	10.8	-0.4
Other services, net	3.3	4.2	1.7	3.5	1.8
Unilateral transfers	-7.1	-9.4	-6.1	-6.1	0

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

3.27 U.S. INTERNATIONAL TRANSACTIONS
IN MILLIONS OF DOLLARS; RECEIPTS, OR INCREASE IN LIABILITIES,+

	1979 Year	1980 Year	1980 QIV	1981 QI	1981 QII	1981 May	1981 June	1981 July
1. CHANGE IN NET FOREIGN POSITIONS OF BANKING OFFICES IN U.S.(EXCL.LIAB.TO FOREIGN OFF.INST.)	14,697	-29,847	-4,410	-10,232	-7,382	4,064	-17,093	6,054
THROUGH INTERBANK TRANSACTIONS WITH								
A.OWN OFFICES IN FOREIGN COUNTRIES	20,683	-12,803	910	-11,557	1,915	7,900	-12,324	6,310
B.UNAFFILIATED BANKING OFFICES IN FOR.COUNTRIES	3,820	-6,231	-2,543	2,098	-7,781	-3,962	-3,179	64
THROUGH NONBANK TRANSACTIONS								
A.CLAIMS ON NONBANKS IN FOREIGN COUNTRIES (INC.,-	-12,130	-11,826	-3,708	-975	-3,101	22	-2,397	-130
B.LIABILITIES TO PRIVATE NONBANKS IN FOREIGN COUNTRIES (INC. CUSTODY LIAB.)	2,324	1,013	931	202	1,585	104	808	-191
2. PRIVATE SECURITIES TRANSACTIONS, NET - EXCL. U.S. TREAS	-3,349	2,500	2,060	1,966	1,737	995	615	-550
A.FOREIGN NET PURCHASES OF U.S. CORP. BONDS	256	1,225	358	758	622	136	272	292
B.FOREIGN NET PURCHASES OF U.S. CORP. STOCKS	1,037	4,264	1,883	1,696	2,561	1,021	904	95
C.U.S. NET PURCHASES(-) OF FOREIGN SECURITIES	-4,641	-2,989	-180	-488	-1,446	-162	-561	-937
3. FOREIGN NET PURCHASES OF U.S. TREASURY OBLIGATIONS 1/	4,821	2,654	893	1,404	709	527	559	228
4. CHANGE IN FOREIGN OFFICIAL RESERVE ASSETS IN U.S. (INCREASE+)	-13,079	14,879	7,507	5,617	-3,144	-5,197	1,666	-156
BY AREA								
A.G-10 COUNTRIES AND SWITZERLAND	-21,121	-2,539	5,525	1,879	-7,987	-7,060	-86	-1,397
B.OPEC	6,540	12,117	736	5,746	2,503	484	173	2,374
C.ALL OTHER COUNTRIES	1,500	5,304	1,246	-2,011	2,344	1,380	1,580	-1,133
BY TYPE								
D.U.S. TREASURY SECURITIES 2/	-21,636	9,710	6,911	7,241	-2,069	-3,491	-251	-1,652
E.OTHER 3/	8,557	5,169	596	-1,624	-1,075	-1,706	1,917	1,496
5. CHANGE IN U.S. RESERVE ASSETS (INCREASE-) 4/	-306	-7,800	-3,762	-3,654	828	298	-187	712
6. TRADE BALANCE 5/	-27,346	-25,342	-5,570	-4,602	-6,970	-2,458	-2,116	-936
7. ALL OTHER TRANSACTIONS AND STATISTICAL DISCREPANCY	24,562	42,956	3,282	9,501	14,222	1,771	16,556	-5,352
MEMO:								
BIL. $ SEASONALLY ADJ. ANNUAL RATES								
MERCHANDISE TRADE BALANCE	-27.3	-25.3	-22.3	-18.4	-27.9	-29.5	-25.4	-11.2
CURRENT ACCOUNT BALANCE	1.4	3.7	5.6	13.0	4.3	n.a.	n.a.	n.a.

1/ INCLUDES U.S. TREASURY NOTES PUBLICLY ISSUED TO PRIVATE FOREIGN RESIDENTS.
2/ INCLUDES NON-MARKETABLE AND MARKETABLE SECURITIES.
3/ INCLUDES DEPOSITS IN BANKS, COMMERCIAL PAPER, ACCEPTANCES, & BORROWING UNDER REPURCHASE AGREEMENTS.
4/ INCLUDES NEWLY ALLOCATED SDR'S OF $1,139 MILLION IN JANUARY 1979; $1,152 MILLION IN JANUARY 1980; and $1,093 MILLION JANUARY 1981.
5/ INTERNATIONAL ACCOUNTS BASIS; SEASONALLY ADJUSTED.

Foreign Economic Developments. Economic activity in major European countries remains weak. Real GDP declined in the second quarter in Germany, Italy, and the United Kingdom and, at the end of the summer, unemployment rates in these countries were at their highest levels since World War II. French industrial production declined in the second quarter to its lowest level since 1977. Real rates of economic growth in Canada and Japan continued to exceed those in major European countries. However, industrial production and consumer spending data in Canada suggest a slowdown in activity at the end of the second quarter, while Japanese growth in the second quarter remained low (4.8 percent s.a.a.r.) in comparison with recent Japanese experience.

Consumer price inflation declined in recent months in Japan but remained steady in Germany. Continuing high rates of wholesale price inflation in Italy suggest that the deceleration of consumer price inflation in recent months may be short-lived. In France and Switzerland consumer price inflation rose significantly during the summer.

External accounts are moving towards surplus in Japan, France, and, to a lesser extent, in Germany as well. The Japanese current account showed a small surplus in July, while the German trade account, after improving in the same month, deteriorated in August. The Canadian current-account deficit jumped sharply in the second quarter as a result of the relatively high pace of Canadian economic activity and a decline in the terms of trade.

Central banks in the United Kingdom, France, and Switzerland raised interest rates in September in order to counter inflation and to halt the weakness of their currencies. The Swedish government devalued the krona on September 14 by 10 percent in order to increase Swedish exports; on the same day, a package of measures, including a 3-1/2 percent reduction in the VAT and a temporary selective price freeze, was sent to Parliament.

Individual Country Notes. In Japan, economic growth still continues to be supported largely by strength in the external sector. Although real GNP advanced at a 4.8 percent (s.a.a.r.) pace in the second quarter, slightly above its rate of growth in the first quarter, private consumption -- which makes up more than half of GNP in Japan -- advanced at a rate of only some 2 percent. Contributions from both the public sector and private plant and equipment investment were negative. Real exports continued to surge, however, moving ahead at an annual rate of over 7 percent, and real imports decelerated to a rate of growth of about 3 percent. Industrial production (s.a.) declined by more than 2 percent in August, following two months of strong increases. The Japanese Economic Planning Agency is reported to be in the process of revising downward its forecast for real growth in FY1981 (ending in March 1982) to less than 5 percent. While recognizing in recent economic assessments that recent growth in Japan has been sluggish, both the EPA and the Bank of Japan still foresee moderate improvement in activity later in the year.

The economy appears to have absorbed the effects of weakness in the yen in recent months without any significant increase in price pressures. Wholesale prices have been advancing at about a 5 percent annual rate in recent months; and, although the CPI increased by 2 percent in September, the average level of consumer prices in the third quarter was virtually unchanged from its level in the previous quarter. Wages have been increasing at an average 7-1/2 percent rate, almost exactly in line with the terms of the spring settlement.

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

	1978	1979	1980	1979	1980				1981		1981			
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	May	June	July	Aug.
Canada: GNP	3.7	3.0	0.0	0.6	-0.9	-1.0	0.2	2.3	1.0	1.3	*	*	*	*
IP	3.4	4.7	-1.6	-0.5	-0.7	-2.5	-0.3	2.3	0.9	2.3	0.4	0.0	n.a.	n.a.
France: GDP	4.0	3.7	1.6	0.4	0.3	-0.4	0.3	-0.2	-1.0	n.a.	*	*	*	*
IP	1.9	4.7	-1.2	-2.2	0.5	-2.2	0.0	-2.0	-4.1	-0.5	-0.8	1.6	n.a.	n.a.
Germany: GNP	3.6	4.5	1.7	0.8	1.9	-2.0	0.0	-0.4	0.4	-0.7	*	*	*	*
IP	2.0	5.3	-0.1	0.3	0.9	-2.4	-1.5	-1.8	2.2	-0.3	0.9	-3.6	0.9	n.a.
Italy: GDP	2.6	5.0	4.0	4.0	2.1	-0.9	-2.7	2.0	0.6	-0.8	*	*	*	*
IP	1.9	6.6	5.6	8.3	4.4	-2.7	-7.6	5.3	0.7	-2.5	-5.9	0.2	0.6	n.a.
Japan: GNP	6.0	5.9	5.5	1.1	1.8	0.8	1.5	0.5	1.1	1.2	*	*	*	*
IP	6.2	8.3	7.1	2.6	4.1	0.2	-2.3	1.6	1.7	-0.3	-1.8	2.6	1.0	-2.2
United Kingdom: GDP	3.2	1.5	-1.9	1.6	-0.9	-1.4	-1.5	-0.7	-0.4	n.a.	*	*	*	*
IP	3.6	2.7	-6.7	-0.1	-2.3	-3.0	-3.1	-2.7	-1.0	-0.6	-0.7	1.5	-0.2	n.a.
United States: GNP	4.8	3.2	-0.2	0.2	0.8	-2.6	0.6	0.9	2.1	-0.4	*	*	*	*
IP	5.8	4.4	-3.6	-0.1	-0.1	-5.1	-1.5	4.5	2.0	0.5	0.5	0.1	0.3	-0.4

* GNP data are not published on monthly basis.

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

	1980			1981			1981				MEMO: Latest 3 Months from Year Ago
	Q2	Q3	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.	
Canada: CPI	2.8	2.8	2.8	3.2	3.1	n.a.	1.5	0.9	0.7	n.a.	12.8
WPI	1.1	2.8	3.2	2.5	2.1	n.a.	-0.8	n.a.	n.a.	n.a.	11.2
France: CPI	3.1	3.2	2.8	3.0	3.3	n.a.	1.0	1.7	1.2	n.a.	13.3
WPI	0.8	0.6	3.4	1.5	4.4	n.a.	1.6	1.2	n.a.	n.a.	11.7
Germany: CPI	1.8	0.7	0.8	2.2	1.8	1.2	0.5	0.4	0.3	0.5	6.1
WPI	1.7	-0.2	0.7	3.9	2.3	n.a.	0.2	0.7	1.3	n.a.	7.7
Italy: CPI	3.9	4.2	5.3	5.2	4.3	n.a.	0.8	0.9	0.7	n.a.	19.7
WPI	3.6	2.2	3.8	5.0	5.1	n.a.	1.0	0.9	n.a.	n.a.	17.7
Japan: CPI	3.0	1.1	1.2	1.3	1.3	-0.1	0.0	-0.3	-1.0	2.0	3.8
WPI	4.8	0.7	-0.7	-0.7	1.1	n.a.	0.4	0.4	0.5	n.a.	1.0
United Kingdom: CPI	5.8	2.2	1.9	2.4	4.9	n.a.	0.6	0.4	0.7	n.a.	11.2
WPI	4.0	2.3	1.2	3.0	3.4	n.a.	0.9	0.5	0.8	n.a.	9.9
United States: CPI(SA)	3.1	1.9	3.1	2.6	1.8	n.a.	0.7	1.2	0.8	n.a.	10.3
WPI(SA)	2.5	3.3	2.1	2.6	2.1	n.a.	0.6	0.4	0.3	n.a.	9.0

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

			1980				1981				
	1979	1980	Q1	Q2	Q3	Q4	Q1	Q2	June	July	Aug.
Canada: Trade	3.4	6.7	1.4	0.9	2.0	2.4	1.5	0.8	0.4	0.4	n.a.
Current Account	-4.2	-1.6	-0.8	-1.0	-0.2	0.3	-1.1	-2.0.	*	*	*
France: Trade[b]	-2.4	-14.2	-3.5	-3.6	-4.0	-3.2	-2.7	-2.1	-1.0	-1.1	0.0
Current Account[b]	1.1	-7.9	-2.3	-1.1	-2.1	-2.0	-2.4	-0.4	*	*	*
Germany: Trade	12.3	4.9	1.7	1.2	1.1	0.9	0.2	3.1	1.0	1.7	0.4
Current Account (NSA)	-5.3	-17.4	-2.9	-4.0	-7.1	-3.3	-4.4	-2.3	-1.6	-1.5	-2.4
Italy: Trade	-5.2	-22.6	-4.1	-4.4	-8.6	-5.5	-4.5	-4.8	-1.4	-1.3	n.a.
Current Account (NSA)	5.5	-9.8	-4.4	-1.5	-1.0	-2.9	n.a.	n.a.	*	*	*
Japan: Trade[b]	1.8	2.1	-1.8	-0.9	1.4	2.9	3.3	5.5	2.2	1.6	2.2
Current Account	-8.8	-10.7	-5.1	-4.1	-1.6	0.4	-0.7	2.0	0.9	0.1	n.a.
United Kingdom: Trade	-7.4	2.9	-0.9	-0.7	1.5	3.0	n.a.	n.a.	n.a.	n.a.	n.a.
Current Account[b]	-3.0	6.6	0.2	-0.2	2.1	4.5	n.a.	n.a.	n.a.	n.a.	n.a.
United States: Trade	-27.3	-25.3	-10.1	-6.7	-2.9	-5.6	-4.6	-7.0	-2.1	-0.9	n.a.
Current Account	1.4	3.7	-2.1	-0.5	5.0	1.4	3.3	1.1	*	*	*

a The current account includes goods, services, and private and official transfers.
b Quarterly data are subject to revision and are not consistent with annual data.
* Comparable monthly current account data are not published.

The current-account surplus in July contracted by about $700 million (s.a.) to a small surplus, largely on the basis of an almost $1 billion increase in imports. The cumulative current account surplus for the first seven months amounted to over $1.1 billion. In recent months, the pace of OPEC portfolio investment into Japan is reported to have weakened in line with the reduced external surpluses in OPEC countries.

Real GNP in Germany declined by 0.7 percent in the second quarter after a gain of 0.4 percent in the first quarter. The level of real GNP in the first half of the year thus remains barely changed from the second half of last year, a level which, in turn, was substantially below that of the first half of last year. This stagnation at low levels is also displayed by industrial production, which is only slightly improved on the low levels of late last year. The level at which economic activity appears stabilized is clearly insufficient to arrest the climbing rate of unemployment, which, at 5.6 percent (s.a.) in July, set post-war record.

The rate of consumer price inflation continues relatively high, with strong increases in wholesale and producers' prices in recent months pointing to further acceleration. Consumer prices in September rose 0.5 percent and were 6.5 percent above their year-ago level.

The adjustment of the current-account deficit, which began in the second quarter, appears to be continuing. Seasonally adjusted, the second-quarter deficit was little over half of the first-quarter deficit. Although the monthly current-account data, which are not seasonally-adjusted, show larger deficits during the summer, the Bundesbank argues that much of the deterioration of the last few months is seasonal. Except for the lower trade surplus in August, the bulk of the adjustment is occurring in the trade account, where very large gains in net export volumes have improved the trade balance despite further deterioration of German terms of trade.

The German government has presented its budget for 1982 to the parliament. Expenditures in nominal terms are scheduled to rise by 4.2 percent and the budget deficit is projected at DM 26.5 billion, compared with DM 34 billion expected for 1981. On the revenue side, the 1982 budget includes a DM 6.1 billion transfer of Bundesbank profits, compared with DM 3.2 billion this year.

In the United Kingdom, there are few signs of a recovery, but the prolonged decline in economic activity seems to be coming to an end. In the second quarter of 1981, preliminary data indicate that real GDP fell 1/2 percent (s.a.), about the same as the decline in the first quarter and less than the quarterly decreases recorded in 1980. There was a slight drop in industrial production (s.a.) in July; for the 3-months ending in July, industrial production was approximately equal to the level recorded in the previous three months. The unemployment rate has continued to increase in 1981, although not as sharply as it did in the second half of last year. In September, the unemployment rate stood at 11.1 percent (s,a.), 2.3 percentage points greater than the rate prevailing at the end of 1980.

The monthly increase in consumer prices in August -- 0.7 percent -- was the largest recorded in that index since March and April, when various fiscal measures sharply increased prices. Excluding seasonal foods, the prices of which fell in August, the rate of increase in consumer prices was 1 percent. About half of the August increases in the consumer and wholesale price indexes was attributable to increases in the sterling price of petroleum products.

On September 14, the Bank of England raised market interest rates about 1 percentage point by lending cash overnight to the discount houses at a penalty rate of 13-3/4 percent -- about 1 percentage point above the rates at which the Bank had been doing business with the market. The Bank of England stated that the rise in interest rates was primarily a response to the weakness of sterling. Other factors in the Bank's decision probably included the acceleration of inflation in recent months and the rather buoyant behavior of the monetary aggregates. Between February and August of this year, sterling M3 increased 16-1/2 percent (s.a.a.r.), well above the 6-10 percent growth target for the 14-month period ending next April; and, although at least some of the overshooting may be attributable to the temporary effects of the (now ended) civil service labor dispute and the consequent distortions of government revenue flows, there is considerable uncertainty about how much of the overshooting will be reversed in the coming months.

French industrial production for the first half of 1981 was over 8 percent below the level of a year earlier. Despite a 1.5 percent increase in June, IP in the second quarter was marginally below the first quarter level. Recent surveys by both INSEE and the Bank of France reveal expectations of a continued mild revival in July - August. Although inventories are still high, and orders and general demand perceptions are low, the recent movement of these indicators is favorable.

Consumer price inflation in the three months through August accelerated to 16 percent (a.r.) from 13 percent in the previous three months. Wholesale price inflation showed a smaller acceleration. In August the trade deficit fell dramatically to only FF 160 million, the lowest monthly figure since 1979 and compares with deficits averaging over FF 5 billion in the previous three months. Increased exports are the main explanation for the improvement.

The money supply (M2) has grown by 16 percent in the first six months of the year. Previous relaxation in credit controls has been extended to year end. The 10 percent M2 target has been abandoned; the Bank of France is now unofficially aiming for a growth rate equal to that of nominal income (perhaps around 12 percent). The National Credit Commission has recently increased both the amount and maturity of a deposit for it to be exempt from interest ceilings and effectively has reduced the interest cost of funds to banks at the expense of savers. The Government recently floated a 6-year bond paying 16.75 percent; the original FF 8 billion offered was oversubscribed and subsequently increased to FF 15 billion. In the last part of September, the French government suspended access of importers to the forward markets and raised significantly their money market interest rates in an effort to reduce pressure on the franc.

Nationalization plans continue to become more concrete. Banks that had deposits less than FF 1 billion as of January, foreign banks, and cooperative banks will not be nationalized. The nationalization of the remaining banks will bring the total share of deposits of nationalized banks to 95 percent. The foreign operations of the nationalized banks will also be nationalized but the industrial holdings will be sold.

The Canadian economy recently showed signs of weakness. Although real GNP (s.a.a.r.) rose 5.2 percent in the second quarter after a gain of 4.0 percent in the first quarter, most of the strength in the second quarter occurred early in the quarter. By the end of the second quarter, industrial production and consumer spending had begun to slow substantially. There is no evidence of a slowing in the rate of consumer price inflation. The consumer price index for the most recent three-month period (June-August) rose 12.4 percent (a.r.) compared with 12 percent during the previous three-month period.

The Canadian current-account deficit (s.a.) jumped nearly C$ 1.1 billion in the second quarter of this year to almost C$ 2.4 billion. The substantial rise in the deficit primarily reflected a C$ 0.7 billion decline in the merchandise-trade surplus associated with a deterioration in the terms of trade. Although both exports and imports rose by more than 7 percent in volume terms, export and import values rose by 4.6 percent and 9 percent, respectively.

On September 1 the governments of Canada and the Province of Alberta announced that a settlement had been reached in their dispute over petroleum revenue sharing. The agreement opens the way for an increase in Canadian oil production and the beginning of construction on two multi-billion dollar projects for developing Alberta's oil sands. The arrangement provides for separate prices for old and new oil, and a windfall profits tax on old oil. The Canadian price of conventional oil will not exceed 75 percent of the world oil price. The federal tax on natural gas exports, which had been vigorously opposed by Alberta, has been dropped.

Economic activity in Italy continues to be sluggish. After rising by 0.6 percent (s.a.) in the first quarter, real GDP fell by 0.8 percent in the second quarter. Unemployment data reflect the weakness in economic growth: in July, the unemployment rate jumped to 8.8 percent, compared with 8.1 percent in April. The July figure is unprecendented in the last 25 years and represents over 2 million people, three-quarters of whom are between the ages of 14 and 29.

Consumer prices rose by only 0.7 percent (n.s.a.) in August; during the three-month period ending August, prices rose by about 13 percent (a.r.) over the preceeding three months. Part of this decline is seasonal. Nominal wages in Italy continue to grow rapidly and in July were about 24 percent above their year-earlier level. The trade balance continues to show substantial, though somewhat narrowed deficit. In the first seven months of this year the deficit averaged $1-1/2 billion (s.a.) per month, compared with a $2-1/4 billion monthly average in the last half of 1980.

The government has extended the deadline for expiration of its import deposit scheme by five months to the end of February to permit a gradual phasing-out of the scheme, thereby avoiding a sudden injection of liquidity. The main purpose of the scheme, which consisted of a 3-month, 30 percent import deposit with the central bank, was to control the monetary base.

On September 14 the government of Sweden announced a 10 percent devaluation of the krona against a basket of 15 currencies which represent Sweden's main trading partners and to which the krona has been pegged since 1977. The devaluation accompanied a package of economic measures submitted to Parliament, which includes: a reduction in the VAT from 23-1/2 percent to 20 percent, effective November 1; a price freeze until January 1 on numerous items at the level of September 11 prices; and the deposit of part of company profits in a special account at the central bank, with incentives for such funds to be used for productive investment. In addition, one-third of the $2 billion of already planned budget cuts will begin in January, rather than in July of next year.

The devaluation was designed to improve the trade balance and stimulate demand. Although the trade balance has shown a small surplus (about $200 million) in the first seven months of this year, compared with a $1.5 billion deficit in the corresponding period of 1980, most of this improvement was due to weak economic activity in Sweden. In volume terms, a look at the same periods reveals a 10 percent fall in imports, while exports remain roughly unchanged. Although the krona was stable vis-a-vis its currency basket this year, it had risen against the currencies of most of its main trading partners while declining against the dollar. Finally, the current account is widely expected show a large deficit ($4-5 billion) this year.

The budget cuts, price freeze, and VAT decrease were proposed in part to reduce the inflationary impact of the devaluation. In recent months consumer price inflation has moderated to about 7 percent (a.r.); however, in spite of such moderation, the July CPI was over 13 percent above its year-earlier level.

In Switzerland the consumer price index in August recorded a 7.5 percent increase over its year-earlier level. Inflation has been rising since earlier this year; in response to this trend and to the weakness of the Swiss franc against the dollar on the exchange market, the Swiss National Bank raised its discount and Lombard rates by one percentage point, to 6 percent and 7.5 percent respectively, on September 2. In addition, officials announced their intention to restrict the availability of central bank credit to commerical banks. The Swiss external sector continues to strengthen. The trade deficit through August was $2.7 billion, compared with $4.8 billion for the same period last year.