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Part 1

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Over the past month, prospects have strengthened for several quarters of vigorous rebound in real output and employment. Final demands have been expanding strongly, paced by steady gains in consumer outlays. At the same time, inventory liquidation has begun to recede from the second quarter rate, which apparently was much deeper than we had expected a month ago. Labor markets have shown further improvement. However, recent and prospective price increases--particularly for food and energy products--have raised doubts about the strength of expansionary forces over the longer term.

Industrial production is estimated to have increased by 0.5 per cent in July, about the same as in June. Consumer goods output rose further, led by increases in nondurables and in home goods. Production of business equipment, however, continued to decline. Among materials, there were further gains in output of nondurables, where stocks have been brought into better balance with sales, while production of durable materials continued to decline.

Retail sales in July rose by about 2-1/2 per cent from an upward-revised June level, continuing the real gains evident most of this year. Excluding autos and nonconsumer goods, sales increased by 1.3 per cent further in July, following a 3 per cent rise for the second quarter. Domestic-model auto sales in July averaged 7.6 million units, annual rate, up 7 per cent over the month, and about a third

above their April trough. Although the current sales rate is still comparatively low, July was the first month in which sales of domestic auto models exceeded the average for calendar 1974.

New orders received by durable goods manufacturers increased 0.4 per cent further in June. For the second quarter as a whole these orders were up 8 per cent, following a 14 per cent decline in the first quarter. The second quarter improvement was particularly strong in autos and in primary metals.

The improvement in orders is likely to become larger and more general as stocks are brought into line with sales in a wider range of industries. In June, a substantial inventory run-off was still evident in manufacturing, especially in durables. Nondurable stocks in book value terms fell at only a \$4 billion rate--about a third of the May decline--with virtually all of the drop in the food industry. Wholesale trade stocks swung positive in June, after five months of decline.

Outlays for fixed capital continue weak. However, there has been some evidence of stabilization in the advance indicators of business investment outlays. New orders for nondefense capital goods in June--though off somewhat from May--were 5 per cent above their March trough. In June, contracts for commercial and industrial buildings (measured in square footage) increased, and for the second quarter as a whole were up more than 8 per cent--following

three consecutive quarters of decline. Furthermore, published capital spending cutbacks in July were at their lowest level in 15 months, with no further cuts reported by utilities.

In contrast to the improved outlook for business demands, prospects for residential construction activity do not appear as bright as they did a month ago. Private nonfarm housing starts slipped 5 per cent in June to a 1.07 million annual rate, and permits remained below 1 million, annual rate. Starts in the second quarter as a whole were only 6 per cent above their first quarter low. Although further gains from current depressed levels are anticipated, it appears that earlier overbuilding, a shortage of construction financing, sharp increases in construction costs, and a steady rise in utility rates, taxes, and other maintenance costs have continued to dampen housing activity, particularly in the multi-family sector.

Improvement in overall activity was clearly reflected in the labor market in July. Nonfarm payroll employment picked up by close to 200,000 (after adjustment for workers on strike) and the manufacturing workweek--a reliable lead indicator--moved upward strongly. Total employment in the household series rose sharply and the unemployment rate dropped 0.2 further to 8.4 per cent. While the July unemployment decline came as a surprise following the sharp June drop, there is confirming evidence in the underlying statistics of a moderate reduction in unemployment last month--which was not the case in June.

Wage increases continued at a moderate pace in July, with the earnings index now averaging a 7-1/2 per cent annual rate rise over the past half year. With increases in compensation-per-hour easing and productivity showing its first gain in over two years, the rise in unit labor costs in the second quarter dropped to under 4 per cent, annual rate, the smallest quarterly advance since 1972.

In contrast to wages, price increases have accelerated recently. Wholesale prices rose by 1.2 per cent in July--mainly as a result of higher food and fuels prices. The July increase reflects in part the impact of anticipated grain sales to Russia. However, certain announced price increases, including those for aluminum and steel products will be reflected in the index after July. Consumer prices rose 0.3 per cent, seasonally adjusted, in June, in large part because of higher food prices. Consumer prices were also up for gas and oil and also for services, including mortgage interest rates. Further increases in prices of food and petroleum products will probably result in another large jump in the CPI in July.

Outlook. The assumptions underlying our GNP projection have changed in several ways since the last Greenbook. In regard to prices, we now expect foods to be rising at a faster rate, particularly early next year, as a result of increased Soviet grain purchases and the recently reduced estimate of the size of the U.S. corn crop. With regard to energy, we are now assuming complete decontrol of oil on September 1st when the current law expires. It is assumed, however, that the impact of decontrol on prices will be partly offset by the

elimination of the \$2 per barrel oil import fee in early September. On balance, the effect of these actions would raise the average price per barrel of crude and refined oil by about \$1, and the price of gasoline by about 2-1/2 cents per gallon. In the absence of any new information, we are still assuming that the price of OPEC oil will be increased by \$1 a barrel on October 1.

As for fiscal policy, we assume that Congress will enact a windfall oil profits tax similar to the bill recently reported out of the Senate Finance Committee. Under this proposed legislation, a 90 per cent excise tax--to be phased out over a 5-1/2 year period--would be assessed against the increase in both 'old' and 'new' oil prices above their approximate current domestic level. Firms would be allowed a 'plowback' tax credit for increased investment of up to 25 per cent of any new excise tax liability. Receipts from the increased taxes would be redistributed to individuals through lower income tax withholding rates. As a result, the new oil tax is assumed to have little net effect on government revenues.

We have also assumed that monetary policy would accommodate some of the price effects stemming from decontrol of old oil and the worsening outlook for food prices. Specifically, it is assumed that beginning in the fourth quarter of 1975, the rate of growth of M_1 would be allowed to move up to about 7-1/4 per cent--near the upper end of the current 5 to 7-1/2 per cent range. Even so, short-term interest rates would be expected to increase sharply later this year and on into early 1976. To allow savings institutions to compete more

effectively for funds, we are assuming a relaxation of Regulation Q ceilings at the end of 1975, including a 50 basis point increase in ceiling rates for CD's of 4 years or more.

Given these assumptions, and our assessment of recent economic developments, we are now projecting a stronger increase in real GNP in the next several quarters. Real GNP is projected to rise at a 7-1/4 per cent annual rate during this and the next two quarters, about 1-1/4 per cent more than projected last month.

During this same period, price pressures are expected to worsen, reflecting developments with regard to food and petroleum products. The impact of rising gasoline and fuel oil prices is likely to be felt mostly in the fourth quarter, while some of the effects of recent developments on retail food prices may be delayed until the first quarter of 1976. In this and the next two quarters, the fixed weighted price index for gross private product is now projected to rise at about a 7-1/2 per cent annual rate--compared with the 5-3/4 per cent rate expected a month ago.

Partly as a result of these price developments and associated strains in financial markets, growth in real GNP is projected to moderate over the course of 1976, dropping to a little under 5 per cent during the latter half of the year. Although business fixed investment is projected to show substantially increased strength as the recovery progresses, the thrust from inventory rebuilding is expected to moderate progressively. Real growth in consumer outlays is projected to taper off, as the effects of the tax rebate wear away and inflation begins to undermine consumers'

financial positions and attitudes. The recovery in housing is also expected to weaken, with activity turning down toward the end of 1976, in an environment of rising interest rates and reduced fund availability.

Reflecting the higher average growth in real GNP expected over the near term, as well as recent labor market developments, unemployment over the next few quarters is expected to drop more than formerly anticipated, and to average about half a per cent less over the entire projection period. The rate is now projected to average about 3-1/4 per cent in the fourth quarter of this year and to drop to about 7-1/2 per cent in the last quarter of 1976.

STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent change, annual rate					
			Real GNP		Gross private product fixed weighted price index		Unemployment rate (per cent)	
	7/9/75	8/13/75	7/9/75	8/13/75	7/9/75	8/13/75	7/9/75	8/13/75
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>1/</u>	102.5	102.5	-2.1	-2.1	11.4	11.4	5.6	5.6
1975	70.5	72.3	-3.9	-3.8	9.3	9.4	8.8	8.5
1976	167.5	194.1	5.4	6.0	5.4	6.7	8.4	7.8
1974-I <u>1/</u>	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>1/</u>	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>1/</u>	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>1/</u>	14.6	14.6	-9.0	-9.0	12.6	12.6	6.6	6.6
1975-I <u>1/</u>	-14.3	-14.3	-11.4	-11.4	7.7	7.7	8.3	8.3
II <u>1/</u>	22.4	16.8	.0	-.3	6.3	6.0	8.9	8.9
III	46.0	50.8	6.1	7.0	6.8	7.4	9.0	8.6
IV	46.0	60.4	6.0	8.5	5.5	7.4	8.8	8.3
1976-I	42.0	53.3	5.8	6.2	5.2	7.7	8.7	8.1
II	41.5	45.7	5.8	5.7	4.9	5.8	8.5	7.9
III	40.5	42.2	5.5	5.0	4.7	5.4	8.3	7.8
IV	44.0	42.1	5.5	4.5	4.6	4.9	8.2	7.6
Change:								
74-II to								
75-II	55.2	49.6	-5.7	-5.8	10.1	9.9	3.8	3.8
74-IV to								
75-IV	100.1	113.7	-.1	.6	6.6	7.1	2.2	1.7
75-II to								
76-II	175.5	210.2	5.9	6.9	5.6	7.1	-.4	-1.0
75-IV to								
76-IV	168.0	183.3	5.6	5.4	4.9	5.9	-.6	-.7

1/ Actual.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarter figures at annual rates.)

	1975				1976			
	I	II	III	IV	Projected I	II	III	IV
Gross National Product	1416.6	1433.4	1484.2	1544.6	1597.9	1643.6	1685.8	1727.9
Final purchases	1435.8	1467.1	1504.5	1551.6	1592.9	1630.8	1670.0	1709.9
Private	1104.2	1128.3	1158.5	1193.7	1226.4	1256.0	1287.0	1315.1
Excluding net exports	1095.4	1119.1	1153.3	1192.2	1231.4	1264.3	1297.5	1326.1
Personal consumption expenditures	913.7	938.1	968.0	998.0	1028.7	1051.9	1075.4	1096.5
Durable goods	124.9	130.0	135.0	140.0	146.0	150.0	154.0	157.0
Nondurable goods	398.8	408.5	422.5	435.5	447.7	455.4	464.4	472.5
Services	389.5	399.6	410.5	422.5	435.0	446.5	457.0	467.0
Gross private domestic investment	163.1	147.3	165.0	187.2	207.7	225.2	237.9	247.6
Residential construction	35.3	36.4	40.3	43.7	47.7	50.9	52.6	52.6
Business fixed investment	146.9	144.6	145.0	150.5	155.0	161.5	169.5	177.0
Change in business inventories	-19.2	-33.7	-20.3	-7.0	5.0	12.8	15.8	18.0
Nonfarm	-17.8	-33.4	-21.1	-10.0	4.0	12.8	15.8	18.0
Net exports of goods and services ^{1/}	8.8	9.2	5.2	1.5	-5.0	-8.3	-10.5	-11.0
Exports	142.2	130.9	134.6	141.5	145.4	150.5	155.2	161.0
Imports	133.4	121.7	129.4	140.0	150.4	158.8	165.7	172.0
Gov't. purchases of goods and services	331.6	338.8	346.0	357.9	366.5	374.8	383.0	394.8
Federal	126.5	128.6	130.3	135.9	138.0	139.8	141.7	147.5
Defense	84.7	85.4	86.1	90.3	91.6	93.0	94.1	98.1
Other	41.8	43.2	44.2	45.6	46.4	46.8	47.6	49.4
State and local	205.1	210.2	215.7	220.0	228.5	235.0	241.3	247.3
Gross national product in constant (1958) dollars	780.0	779.4	792.7	809.0	821.4	832.9	843.2	852.5
GNP implicit deflator (1958=100)	181.6	183.9	187.2	190.9	194.5	197.3	199.9	202.7
Personal income	1193.4	1220.8	1252.5	1293.8	1328.7	1359.7	1394.7	1422.2
Wage and salary disbursements	765.1	773.1	792.2	816.5	837.2	859.4	881.6	904.0
Disposable income	1015.5	1078.8	1075.7	1122.8	1143.7	1168.9	1197.3	1219.2
Personal saving	75.9	114.6	81.3	94.7	87.5	89.1	93.5	94.0
Saving rate (per cent)	7.5	10.6	7.6	8.4	7.7	7.6	7.8	7.7
Corporate profits & inventory val. adj.	94.3	91.2	99.7	106.8	122.1	131.6	139.2	150.1
Corporate profits before tax	101.2	99.1	112.0	122.0	138.5	145.5	151.0	160.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	284.1	247.9	293.0	297.4	320.6	329.9	340.2	349.8
Expenditures	338.5	355.3	361.0	372.4	382.4	387.7	397.6	408.3
Surplus or deficit (-) ^{2/}	-54.4	-107.4	-68.0	-75.0	-61.8	-57.8	-57.4	-58.5
High employment surplus or deficit (-)	9.6	-38.5	-6.8	-17.9	-10.2	-7.0	-6.6	-8.2
State and local government surplus or deficit (-) (N.I.A. basis)	-1.6	-2.3	-1.0	1.7	1.9	1.2	-1.1	-.6
Total labor force (millions)	94.0	94.7	95.2	95.4	95.8	96.2	96.7	97.1
Armed forces	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force ^{2/}	91.8	92.5	93.0	93.2	93.6	94.0	94.5	94.9
Unemployment rate (per cent)	8.3	8.9	8.6	8.3	8.1	7.9	7.8	7.6
Nonfarm payroll employment (millions)	76.8	76.3	76.9	77.4	77.8	78.4	79.0	79.5
Manufacturing	18.4	18.1	18.2	18.4	18.6	18.9	19.2	19.4
Industrial production (1967=100)	111.6	110.0	113.0	117.0	120.5	123.4	126.0	128.4
Capacity utilization, mfg. (per cent)	68.2	66.5	67.8	69.7	71.2	72.3	73.2	74.0
Major materials (per cent)	70.0	70.3	73.2	76.4	78.7	80.5	81.7	82.5
Housing starts, private (millions, A.R.)	1.00	1.06	1.20	1.40	1.50	1.45	1.45	1.40
Sales new autos (millions, A.R.)	8.31	7.90	9.40	9.95	10.50	10.25	10.22	9.95
Domestic models	6.60	6.33	7.75	8.25	8.75	8.50	8.50	8.25
Foreign models	1.71	1.57	1.65	1.70	1.75	1.75	1.72	1.70

^{1/} Net exports of g. & s. (Bal. of paymts) 13.8 ^{3/} 20.1 ^{3/} 16.1 ^{3/} 12.4 ^{3/} 5.9 2.6 .4 -.1
 Exports 148.7 ^{3/} 141.8 ^{3/} 145.5 ^{3/} 152.4 ^{3/} 156.3 161.4 166.1 171.9
 Imports 134.9 121.7 129.4 140.0 150.4 158.8 165.7 172.0

^{2/} Federal government N.I.A. receipts in 1975-II reflect the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; this latter reduction, enacted only for 1975, is assumed to be continued in 1976.

^{3/} Includes \$.3 billion, annual rate of shipments of military equipment and supplies to Israel which are not included in GNP exports.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1975				1976			
	I	II	III	IV	Projected			
					I	II	III	IV
Gross National Product	-14.3	16.8	50.8	60.4	53.3	45.7	42.2	42.1
Inventory change	-37.0	-14.5	13.4	13.3	12.0	7.8	3.0	2.2
Final purchases	22.7	31.3	37.4	47.1	41.3	37.9	39.2	39.9
Private	14.9	24.1	30.2	35.2	32.7	29.6	31.0	28.1
Net exports	6.9	.4	-4.0	-3.7	-6.5	-3.3	-2.2	-.5
Excluding net exports	8.0	23.7	34.2	38.9	39.2	32.9	33.2	28.6
Personal consumption expenditures	17.4	24.9	29.9	30.0	30.7	23.2	23.5	21.1
Durable goods	4.2	5.1	5.0	5.0	6.0	4.0	4.0	3.0
Nondurable goods	7.1	9.7	14.0	13.0	12.2	7.7	9.0	8.1
Services	6.0	10.1	10.9	12.0	12.5	11.5	10.5	10.0
Residential fixed investment	-5.1	1.1	3.9	3.4	4.0	3.2	1.7	.0
Business fixed investment	-4.3	-2.3	.4	5.5	4.5	6.5	8.0	7.5
Government	7.8	7.2	7.2	11.9	8.6	8.3	8.2	11.8
Federal	2.0	2.1	1.7	5.6	2.1	1.8	1.9	5.8
State and local	5.8	5.1	5.5	6.3	6.5	6.5	6.3	6.0
GNP in constant (1958) dollars	-24.0	-.6	13.3	16.3	12.4	11.5	10.3	9.3
Final purchases	-1.3	6.4	9.1	6.5	5.3	7.8	8.3	7.3
Private	-2.7	4.8	6.9	7.5	7.4	6.5	7.9	6.5
	-----In Per Cent Per Year-----							
Gross National Product	-3.9	4.8	14.9	17.3	14.5	11.9	10.7	10.4
Final purchases	6.6	9.0	10.6	13.1	11.1	9.9	10.0	9.9
Private	5.6	9.0	11.1	12.7	11.4	10.0	10.2	9.0
Personal consumption expenditures	8.0	11.4	13.4	13.0	12.9	9.3	9.2	8.1
Durable goods	14.7	17.4	16.3	15.7	18.3	11.4	11.1	8.0
Nondurable goods	7.5	10.1	14.4	12.9	11.7	7.1	8.1	7.2
Services	6.4	10.8	11.4	12.2	12.4	11.0	9.7	9.0
Gross private domestic investment	-63.2	-33.5	57.4	65.7	51.5	38.2	24.5	17.3
Residential structures	-41.7	13.1	50.3	38.3	42.0	29.7	14.0	.0
Business fixed investment	-10.9	-6.1	1.1	16.1	12.5	17.9	21.3	18.9
Gov't purchases of goods & services	10.0	9.0	8.8	14.5	10.0	9.4	9.0	12.9
Federal	6.6	6.8	5.4	18.3	6.3	5.3	5.5	17.4
Defense	3.4	3.3	3.3	21.0	5.9	6.3	4.8	18.1
Other	12.4	14.1	9.6	13.3	7.2	3.5	7.0	16.0
State and local	12.2	10.3	10.9	12.2	12.2	11.9	11.2	10.3
GNP in constant (1958) dollars	-11.4	-.3	7.0	8.5	6.2	5.7	5.0	4.5
Final purchases	-.7	3.3	4.6	3.3	2.6	3.9	4.0	3.6
Private	-1.7	3.0	4.3	4.7 ^{2/}	4.5 ^{2/}	3.9	4.7	3.9 ^{2/}
GNP implicit deflator	8.4 ^{2/}	5.1	7.5	8.1 ^{2/}	7.8 ^{2/}	5.8	5.4	5.6 ^{2/}
Private GNP fixed weighted index ^{3/}	7.7	6.0	7.4	7.4	7.7	5.8	5.4	4.9
Personal income	2.2	9.5	10.8	13.9	11.2	9.7	10.7	8.1
Wage and salary disbursements	-2.1	4.2	10.3	12.8	10.5	11.0	10.7	10.6
Disposable income	2.7	27.4	-1.1	18.7	7.7	9.1	10.1	7.5
Corporate profits before tax	-64.9	-8.0	63.1	40.8	66.1	21.8	16.0	26.1
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-42.0	95.1	6.1	35.0	12.1	13.1	11.8
Expenditures	26.3	21.4	6.6	13.2	11.2	5.7	10.6	11.2
Nonfarm payroll employment	-7.7	-2.2	2.9	2.6	2.1	3.1	3.1	2.6
Manufacturing	-22.3	-6.2	2.4	4.5	4.4	6.6	6.5	4.2
Industrial production	-28.4	-5.7	11.7	14.7	12.8	9.7	8.7	8.0
Housing starts, private	-2.4	28.8	64.2	85.3	31.8	-12.7	.0	-13.1
Sales new autos	60.9	-18.2	100.4	25.5	24.0	-9.2	-16.6	-10.2
Domestic models	41.8	-15.3	124.7	28.4	26.5	-10.9	.0	-11.3
Foreign models	172.4	-28.8	21.7	12.7	12.3	.0	-6.7	-4.6

^{1/} Percentage rates are annual rates compounded quarterly.

^{2/} Excluding Federal pay increases rates of change are: 1975-I, 8.3 per cent; 1975-IV, 7.0 per cent; 1976-I, 7.7 per cent; and 1976-IV, 4.9 per cent.

^{3/} Using expenditures in 1967 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
 (Quarterly figures are seasonally adjusted. Expenditures and income
 figures are billions of dollars, with quarter figures at annual rates.)

	1973				1974			
	I	II	III	IV	I	II	III	IV
Gross National Product	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8	1416.3	1430.9
Final purchases	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3	1407.6	1413.1
Private	969.9	993.9	1020.1	1028.7	1045.6	1065.9	1095.3	1089.3
Excluding net exports	970.7	993.4	1013.4	1019.4	1034.3	1067.4	1098.4	1087.4
Personal consumption expenditures	781.7	799.0	816.3	823.9	840.6	869.1	901.3	895.8
Durable goods	132.4	132.1	132.4	124.3	123.9	129.5	136.1	120.7
Nondurable goods	323.3	332.7	343.8	352.1	364.4	375.8	389.0	391.7
Services	325.9	334.2	340.1	347.4	352.4	363.8	376.2	383.5
Gross private domestic investment	199.0	205.1	209.0	224.5	210.5	211.8	205.8	209.4
Residential construction	58.5	58.7	58.1	53.6	48.4	48.8	46.2	40.4
Business fixed investment	130.5	135.6	139.0	141.9	145.2	149.4	150.9	151.2
Change in business inventories	10.0	10.7	11.8	28.9	16.9	13.5	8.7	17.8
Nonfarm	6.5	7.7	7.4	24.0	13.1	10.4	6.6	17.5
Net exports of goods and services ^{1/}	- .8	.5	6.7	9.3	11.3	-1.5	-3.1	1.9
Exports	88.8	95.4	103.7	113.6	131.2	138.5	143.6	147.5
Imports	89.5	94.9	96.9	104.3	119.9	140.0	146.7	145.7
Gov't. purchases of goods and services	269.0	273.3	276.9	286.4	296.3	304.4	312.3	323.8
Federal	106.4	106.2	105.3	108.4	111.5	114.3	117.2	124.5
Defense	75.0	74.0	73.3	75.3	75.8	76.6	78.4	84.0
Other	31.4	32.2	32.0	33.1	35.7	37.7	38.8	40.6
State & local	162.6	167.1	171.6	177.9	184.8	190.1	195.1	199.3
Gross national product in constant (1958) dollars	832.8	837.4	840.8	845.7	830.5	827.1	823.1	804.0
GNP implicit deflator (1958 = 100)	150.0	152.6	155.7	158.9	163.6	167.3	172.1	178.0
Personal income	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6	1168.2	1186.9
Wage and salary disbursements	667.6	683.8	698.2	717.0	727.6	745.2	763.0	769.2
Disposable income	869.5	892.1	913.9	939.4	950.6	966.5	993.1	1008.8
Personal saving	65.3	69.6	73.2	89.3	84.4	71.5	65.5	86.5
Saving rate (per cent)	7.5	7.8	8.0	9.5	8.9	7.4	6.6	8.6
Corporate profits & inventory val. adj.	103.9	105.0	105.2	106.4	107.7	105.6	105.8	103.4
Corporate profits before tax	120.4	124.9	122.7	122.7	135.4	139.0	157.0	131.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	249.1	255.0	261.8	268.3	278.1	288.6	302.8	294.7
Expenditures	260.2	262.4	263.4	270.6	281.0	291.6	304.7	319.3
Surplus or deficit (-)	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0	-1.9	-24.5
High employment surplus or deficit (-)	-8.5	-3.4	4.6	4.8	14.0	19.6	24.7	17.8
State and local government surplus or deficit (-), (N.I.A. basis)	13.2	10.4	8.4	4.6	3.2	2.0	2.1	- .1
Total labor force (millions)	90.0	90.8	91.3	92.1	92.7	92.9	93.6	94.0
Armed forces "	2.4	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Civilian labor force "	87.6	88.5	89.0	89.8	90.5	90.6	91.4	91.8
Unemployment rate (per cent)	5.0	4.9	4.8	4.8	5.2	5.1	5.5	6.6
Nonfarm payroll employment (millions)	75.8	76.5	77.1	77.8	78.0	78.3	78.7	78.3
Manufacturing	19.8	20.0	20.1	20.3	20.2	20.2	20.1	19.6
Industrial production (1967 = 100)	123.1	124.8	126.7	127.0	124.9	125.5	125.4	121.3
Capacity utilization, mfg. (per cent)	82.8	83.3	83.3	82.6	80.5	80.1	79.4	75.7
Major materials (per cent)	93.0	93.4	93.5	92.3	90.2	90.2	88.5	79.1
Housing starts, private (millions, A.R.)	2.39	2.17	2.01	1.62	1.61	1.53	1.21	1.00
Sales new autos (millions, A.R.)	12.18	12.03	11.33	10.15	9.04	9.17	10.07	7.38
Domestic models	10.26	10.17	9.66	8.51	7.49	7.92	8.52	6.05
Foreign models	1.92	1.85	1.67	1.64	1.55	1.25	1.55	1.33
^{1/} Net exports of g.& s. (Bal. of Paymts.)	- .7	.5	6.6	10.92 ^{2/}	11.22 ^{2/}	- .72 ^{2/}	-1.32 ^{2/}	3.32 ^{2/}
Exports	88.8	95.4	103.7	116.02 ^{2/}	132.32 ^{2/}	140.22 ^{2/}	146.82 ^{2/}	151.12 ^{2/}
Imports	89.5	94.9	97.1	105.1	121.1	140.9	148.1	147.8

^{2/} Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars at annual rates are 1973-IV, \$2.4; 1974-I, \$.3; 1974-II, \$.4, 1974-III, \$.3; and 1974-IV, \$.3.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973				1974			
	I	II	III	IV	I	II	III	IV
	-----Billions of Dollars-----							
Gross National Product	44.2	29.0	31.0	35.1	14.8	25.0	32.5	14.6
Inventory change	-1.0	.7	1.1	17.1	-12.0	-3.4	-4.8	9.1
Final purchases	45.2	28.3	29.8	18.1	26.8	28.4	37.3	5.5
Private	38.8	24.0	26.2	8.6	16.9	20.3	29.4	-6.0
Net exports	4.5	1.3	6.2	2.6	2.0	-12.8	-1.6	5.0
Excluding net exports	34.3	22.7	20.0	6.0	14.9	33.1	31.0	-11.0
Personal consumption expenditures	24.5	17.3	17.3	7.6	16.7	28.5	32.2	-5.5
Durable goods	8.1	-.3	.3	-8.1	-.4	5.6	6.6	-15.4
Nondurable goods	12.4	9.4	11.1	8.3	12.3	11.4	13.2	2.7
Services	3.9	8.3	5.9	7.3	5.0	11.4	12.4	7.3
Residential fixed investment	1.8	.2	-.6	-4.5	-5.2	.4	-2.6	-5.8
Business fixed investment	8.0	5.1	3.4	2.9	3.3	4.2	1.5	.3
Government	6.4	4.3	3.6	9.5	9.9	8.1	7.9	11.5
Federal	1.2	-.2	-.9	3.1	3.1	2.8	2.9	7.3
State and local	5.2	4.5	4.5	6.3	6.9	5.3	5.0	4.2
GNP in constant (1958) dollars	18.6	4.6	3.4	4.9	-15.2	-3.4	-4.0	-19.1
Final purchases	20.2	4.1	3.1	-7.0	-5.8	-1.0	-.8	-25.0
Private	19.1	4.3	3.3	-9.0	-6.1	-.8	-.9	-25.4
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	15.5	9.6	10.1	11.2	4.5	7.6	9.7	4.2
Final purchases	16.0	9.5	9.7	5.7	8.4	8.7	11.3	1.6
Private	17.7	10.3	11.0	3.4	6.7	8.0	11.5	-2.2
Personal consumption expenditures	13.6	9.2	8.9	3.8	8.4	14.3	15.7	-2.4
Durable goods	28.7	-.9	.9	-22.3	-1.3	19.3	22.0	-38.1
Nondurable goods	16.9	12.1	14.0	10.0	14.7	13.1	14.8	2.8
Services	4.9	10.6	7.3	8.9	5.9	13.6	14.3	8.0
Gross private domestic investment	19.8	12.8	7.8	33.1	-22.7	2.5	-10.9	7.2
Residential structures	13.3	1.4	-4.0	-27.6	-33.5	3.3	-19.7	-41.5
Business fixed investment	28.8	16.6	10.4	8.6	9.6	12.1	4.1	.8
Gov't. purchases of goods and services	10.1	6.5	5.4	14.4	14.6	11.4	10.8	15.6
Federal	4.6	-.7	-3.3	12.3	11.9	10.4	10.5	27.3
Defense	1.6	-5.2	-3.7	11.4	2.7	4.3	9.7	31.8
Other	12.3	10.6	-2.5	14.5	35.3	24.4	12.2	19.9
State and local	13.9	11.5	11.2	15.5	16.4	12.0	10.9	8.9
GNP in constant (1958) dollars	9.5	2.2	1.6	2.4	-7.0	-1.6	-1.9	-9.0
Final purchases	10.4	2.0	1.5	-3.3	-2.8	-.5	-.4	-11.7
Private	12.0	2.5	1.9	-5.1	-3.5	-.5	-.5	-14.3
GNP implicit deflator	5.5	7.3	8.3	8.6	12.3	9.4	11.9	14.4
Private GNP fixed weighted index ^{2/}	7.4	8.1	8.4	9.1	14.1	12.3	13.8	12.6
Personal income	12.1	10.5	11.6	12.2	4.9	8.2	12.4	6.6
Wage and salary disbursements	13.0	10.1	8.7	11.7	6.0	10.0	9.9	3.3
Disposable income	15.8	10.8	10.1	11.6	4.9	6.9	11.5	6.5
Corporate profits before tax	53.3	15.8	-6.9	.0	48.3	11.1	62.8	-50.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	25.0	9.8	11.1	10.3	15.4	16.0	21.2	-10.3
Expenditures	-1.5	3.4	1.5	11.4	16.3	16.0	19.2	20.6
Nonfarm payroll employment	5.0	3.9	3.0	3.8	1.0	1.6	1.7	-1.7
Manufacturing	6.3	4.4	2.1	3.7	-2.4	-.3	-.6	-10.4
Industrial production	10.0	5.6	6.2	1.0	-6.5	1.9	-.3	-12.5
Housing starts, private	-5.5	-32.7	-25.3	-58.3	-2.0	-19.1	-60.7	-53.0
Sales new autos	18.3	-5.0	-21.3	-35.5	-37.1	5.9	45.5	-71.2
Domestic models	15.4	-3.5	-18.6	-39.8	-40.0	25.1	33.8	-74.6
Foreign models	35.4	-12.9	-35.0	-5.9	-20.0	-57.8	138.3	-46.2

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} Using expenditures in 1967 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of dollars)

	1969	1970	1971	1972	1973	1974	1975	1976
								Projected
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1469.7	1663.8
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1489.8	1650.9
Private	712.5	753.1	814.4	893.8	1003.2	1074.0	1146.2	1271.1
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1140.0	1279.8
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	954.3	1063.1
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	132.5	151.8
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	416.3	460.0
Services	242.7	262.6	284.8	310.9	336.9	369.0	405.5	451.4
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	165.7	229.6
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	38.9	51.0
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	146.8	165.8
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-20.1	12.9
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-20.6	12.7
Net exports of goods and services ^{1/}	1.9	3.6	- .2	- 6.0	3.9	2.1	6.2	-8.7
Exports	55.5	62.9	65.4	72.4	100.4	140.2	137.3	153.0
Imports	53.6	59.3	65.6	78.4	96.4	138.1	131.1	161.7
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	343.6	379.8
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.3	141.8
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.6	94.2
Other	20.4	21.6	26.5	30.1	32.2	38.2	43.7	47.6
State & local	111.2	123.3	136.6	150.8	169.8	192.3	213.3	238.0
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	790.3	837.5
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.9	198.6
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1240.1	1376.3
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	786.7	870.6
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1073.2	1182.3
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	91.6	91.0
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.5	7.7
Corporate profits & inventory val. adj.	79.8	69.2	78.7	52.2	105.1	105.6	98.0	135.8
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	108.6	148.8
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	280.6	335.1
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	356.8	394.0
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-76.2	-58.9
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.1	-13.4	-8.0
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	-.8	.4
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.8	96.5
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.6	94.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.9
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.9	78.7
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.3	19.0
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	112.9	124.6
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.1	72.7
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	72.5	80.9
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.17	1.45
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.89	10.23
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.23	8.50
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.66	1.73
^{1/} Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4	2/ 3.32/	15.6	2/ 2.2
Exports	55.0	62.3	65.4	72.4	101.0	2/ 142.62/	147.1	2/ 163.9
Imports	53.6	59.4	65.6	78.4	96.6	139.4	131.5	161.7

^{2/} Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are: 1973, \$.6; 1974, \$.325; and 1975, \$.150.

August 13, 1975

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Projected	
							1975	1976
-----Billions of Dollars-----								
Gross National Product	66.1	46.8	77.8	103.1	136.9	102.5	72.3	194.1
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.2	-34.3	33.0
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	106.6	161.1
Private	55.0	40.6	61.3	79.4	109.4	70.8	72.2	124.9
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	4.1	-14.9
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	68.1	139.8
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	77.6	108.8
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	5.0	19.3
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	36.1	43.7
Services	21.4	19.9	22.2	26.1	26.0	32.1	36.5	45.9
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-7.1	12.1
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-2.4	19.0
Government	10.4	9.5	14.7	21.5	20.7	32.8	34.4	36.2
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.4	11.5
State and local	10.4	12.1	13.3	14.2	19.0	22.5	21.0	24.7
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-30.9	47.2
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-9.7	28.1
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-13.5	28.2
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.2	13.2
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.7	10.8
Private	8.4	5.7	8.1	9.7	12.2	7.1	6.7	10.9
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.9	11.4
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	3.9	14.6
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.5	10.5
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.9	11.3
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-20.9	38.6
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-15.4	31.1
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-1.6	12.9
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	11.1	10.5
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.5	8.8
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	10.0	8.8
Other	-.5	5.9	22.7	13.6	7.0	18.6	14.4	8.9
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.9	11.6
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-3.8	6.0
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-1.2	4.3
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-2.0	3.5
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	9.2	6.8
Private GNP fixed weighted index ^{1/}	4.7	4.8	4.3	3.3	6.3	11.4	9.4	6.7
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.8	11.0
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.7	10.7
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.5	10.2
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-22.8	37.0
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-3.6	19.4
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.3	10.4
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.8	2.3
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-.9	3.8
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.5	10.3
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-12.7	23.9
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	2	15.1
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-2.9	17.5
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	16.9	4.2

^{1/} Using expenditures in 1967 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Interest rates in most markets rose over the past month as indications of strengthening economic activity and more rapid inflation were accompanied by a further 1/4 percentage point increase in the Federal funds rate. Yields on Treasury bills advanced 35 to 65 basis points, while private short-term market rates increased somewhat less. The larger rise of Treasury bill rates reflects greater supply pressures, stemming from additions to bill auctions as well as from reductions of System holdings and sales by foreign official institutions. In Treasury note and bond markets yields have also advanced appreciably, responding in part to Treasury financing operations in late July and early August and those announced for later this month.

The rise in corporate bond yields was moderated by a reduction of offerings in July as well as by cancellation of several issues scheduled in early August, because of uncertain market conditions. The July decline of new corporate issues, which was more than seasonal, may reflect in part some improvement in corporate cash flows because of sizable inventory liquidation. In contrast, new long-term offerings in the municipal market were at a record volume in July and remain heavy in August. Interest rates on municipal securities have stayed close to the historic highs reached in late July. Continuing financial problems of New York City, as well as concern by market participants over the status of certain New York State agencies, are adding to pressures in the municipal market. The heightened quality consciousness of investors has resulted in a widening of yield spreads between rating classes of municipals during the past two months.

At commercial banks, credit growth remained low during the June-July period. Over these two months, business and other loans continued to decline but at a slower rate than in the second quarter. Since mid-July, the advance in market rates has prompted a rise in prime loan rates to 7-3/4 per cent from 7 per cent. Banks continued to add to their Treasury and other security holdings, with acquisitions of municipals in part accounted for by New York City bank purchases of Municipal Assistance Corporation debt. Given the slow growth in loans, bank needs for funds remained moderate and banks permitted their outstanding CD's to continue to run off. Growth in other deposits slowed in association with the unwinding of deposit balances built up as a result of special Treasury disbursements.

The nonbank thrift institutions also have experienced a deceleration in deposit growth. Aside from the end of special Treasury disbursements, flows to New York City savings banks may have been especially affected by withdrawals to finance acquisition of MAC securities which provided extraordinarily high tax-exempt returns-- particularly to New York City residents. Savings and loan associations have slowed markedly their repayment of FHLB debt, much of which is now subject to prepayment penalties. Although mortgage commitment and lending activity remained strong in June (the latest available data), market apprehension nevertheless has increased because of the rise in market interest rates. Mortgage rates in the secondary market have risen about 20 basis points since mid-July.

Outlook. The emerging pattern of sectoral credit flows is reflecting the quickening pace of economic activity. The GNP projection implies that total private credit demands will strengthen further while governmental demands for credit will remain outsized. Thus, assuming growth in monetary aggregates within the targeted ranges, credit demands are likely to press against available supplies and to generate substantial upward pressures on interest rates as we enter the autumn.

Projected Treasury borrowing requirements have been raised somewhat by the larger budget deficit now expected by the staff. It now appears that after completion of its announced August financing operations the Treasury will have to raise an additional \$30 billion or so before year end. State and local governments are also expected to face continuing budgetary problems that will result in unusually large demands on bond markets. Because of the relatively limited interest of commercial banks in acquiring municipals--and the financial pressures facing casualty insurance companies, the other major institutional investor in tax-exempt securities--municipal yields are likely to remain high relative to those on taxable securities. And within the municipal market, risk premiums faced by lower-rated credits will likely continue to be historically high.

In private markets, demands for consumer and residential mortgage credit are expected to increase further in the period ahead, reflecting the projected rise in consumer expenditures and increased

housing activity. In the business sector, short-term credit demands are likely to strengthen moderately in coming months, as a result of enlarged working capital needs. But the bulk of business requirements for external funds undoubtedly will continue to be satisfied in capital markets. Foreign issuers probably also will continue to raise an appreciable volume of long-term funds in U. S. markets.

On the supply of funds side of the market, depositary institutions are likely to experience a slowing in growth of interest-bearing consumer-type deposits as yields on alternative market instruments become more attractive. Over the remainder of the year, slowing deposit growth and rising costs of funds may induce some shift to more cautious loan policies at banks and the nonbank thrift institutions. And continuing upward pressure on lending rates is likely, including increases in primary mortgage rates.

INTERNATIONAL DEVELOPMENTS

Summary. The dollar has appreciated on a weighted average basis by almost 6 percent since mid-year, and now stands at about the level of last September. The recent appreciation of the dollar has been broadly based against EEC currencies and the pound. Since mid-year most foreign central banks have intervened -- \$3/4 billion (net) in aggregate -- to slow the rapid depreciation of their currencies, and the System has been able to acquire marks sufficient to repay fully the post-1971 swap drawings, and to build up small balances. The appreciation of the dollar has reflected a firming of U.S. and of Euro-dollar interest rates (while rates in other markets have changed little on balance) at a time when there was a very large U.S. trade surplus.

The trade surplus increased markedly in the second quarter to an annual rate of \$14 billion, as the value of imports fell substantially in response to the lower level of economic activity in the United States. Imports of fuels continued to decline with reduced domestic consumption, and were particularly low in June because of earlier purchases made in anticipation of the imposition of the increased import fee at the beginning of that month. Imports other than fuels fell sharply further in the second quarter to a level one-fifth below that of the second half of last year. This decline in non-fuel imports -- the sharpest in the postwar period -- primarily reflected the liquidation of inventories.

Exports also declined in the second quarter, but the decline was moderate. Agricultural exports fell further to a level below the average for 1974, but as noted below downward revisions in estimates of world grain production suggest that this decline may be temporary. Nonagricultural exports were unchanged in value but declined in volume as foreign economic activity continued sluggish; shipments of non-agricultural industrial supplies fell, while exports of machinery, civilian aircraft and automotive equipment rose.

Bank-reported net capital outflows fell in the second quarter; outstanding gross claims on foreigners rose \$3-3/4 billion, as they had in the first quarter, but bank-reported liabilities to foreigners were unchanged in the second quarter, after having declined by \$1-1/2 billion in the first. Outflows on securities transactions also decreased in the second quarter, but foreign offerings of new issues in the U.S. market picked up in June and July, as a result of large new issues by Canada and international institutions.

Apart from Japan there are as yet no clear signs of an economic upturn abroad. Short-term interest rates have recently declined only slightly in some countries, and in a few instances reversed a part of the decline that occurred earlier in the year. In some countries (notably the United Kingdom, Canada and Italy) the potential impact of capital outflows on the exchange rate and/or reserves has reinforced the element of caution required by continuing evidence of inflation.

In Germany, where rates have fallen most sharply, the authorities have sought to limit capital outflows in order to moderate pressures on domestic financial markets. There are still no significant signs of an upturn in Germany, and the authorities are expected to take stimulative fiscal action in the next few weeks. Additional fiscal stimulus is also expected to be announced in September by France, Japan and some smaller European countries.

Outlook. The higher value of U.S. agricultural exports resulting from Russian grain purchases -- in good part reflecting higher prices -- is expected to strengthen total exports later this year. Consequently it now appears probable that, even with a marked pickup in imports as activity expands in this country, there will be a large, although gradually declining, U.S. trade surplus through the end of the year.

The upward pressure on U.S. interest rates as recovery occurs in this country is expected to raise these rates relative to rates abroad and may tend to strengthen the exchange rate for the dollar.