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August 8, 1979

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
						(At annual rate)
Civilian labor force	July	8-3-79	103.1	6.2	3.7	2.4
Unemployment rate (%) <u>1/</u>	July	8-3-79	5.7	5.6	5.8	6.1
Insured unemployment rate (%) <u>1/</u>	July	8-3-79	2.9	2.8	3.0	3.4
Nonfarm employment, payroll (mil.)	July	8-3-79	88.8	.6	2.3	3.2
Manufacturing	July	8-3-79	20.8	-3.6	-1.6	2.6
Nonmanufacturing	July	8-3-79	67.9	1.9	3.5	3.3
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	July	8-3-79	35.7	35.7	35.4	35.9
Hourly earnings (\$) <u>1/</u>	July	8-3-79	6.17	6.13	6.04	5.71
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	July	8-3-79	40.2	40.1	39.2	40.5
Unit labor cost (1967=100)	June	7-31-79	174.8	4.1	3.7	6.4
Industrial production (1967=100)	June	7-16-79	151.4	-3.2	-2.4	4.5
Consumer goods	June	7-16-79	150.0	-11.9	-5.5	2.0
Business equipment	June	7-16-79	173.6	2.8	3.3	7.3
Defense & space equipment	June	7-16-79	91.4	2.6	4.0	8.0
Materials	June	7-16-79	153.5	-.8	-1.8	4.8
Consumer prices all items (1967=100)	June	7-26-79	216.3	11.8	12.8	10.8
All items, excluding food & energy	June	7-26-79	205.8	10.0	10.8	9.5
Food	June	7-26-79	234.7	2.0	7.3	9.9
Producer prices: (1967=100)						
Finished goods	June	7-6-79	213.1	6.2	7.3	9.7
Intermediate materials, nonfood	June	7-6-79	240.4	11.6	14.3	11.6
Crude foodstuffs & feedstuffs	June	7-6-79	241.9	-14.2	-7.0	11.0
Personal income (\$ bil.) <u>2/</u>	June	7-19-79	1903.0	6.0	6.6	11.7
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	June	8-1-79	77.2	-2.0	-8.2	12.2
Capital goods industries	June	8-1-79	25.8	.6	-7.1	19.3
Nondefense	June	8-1-79	23.0	5.7	-5.7	26.8
Defense	June	8-1-79	2.7	-28.7	-17.4	-20.7
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	May	8-1-79	1.40	1.43	1.41	1.42
Manufacturing	June	8-1-79	1.53	1.48	1.43	1.52
Trade	May	8-1-79	1.33	1.33	1.33	1.32
Ratio: Mfrs.' durable goods inven- tories to unfilled orders <u>1/</u>	June	8-1-79	.537	.536	.535	.593
Retail sales, total (\$ bil.)	June	7-10-79	70.6	-1.1	-2.1	7.0
GAF <u>3/</u>	June	7-10-79	15.5	-.5	.7	7.6
Auto sales, total (mil. units.) <u>2/</u>	July	8-3-79	10.6	11.0	-7.0	-3.3
Domestic models	July	8-3-79	8.1	13.6	-6.1	-9.9
Foreign models	July	8-3-79	2.5	3.2	-9.7	28.1
Housing starts, private (thous.) <u>2/</u>	June	7-18-79	1,935	5.7	8.3	-7.5
Leading indicators (1967=100)	June	7-31-79	140.9	-.1	-1.9	-1.1

1/ Actual data used in lieu of per cent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent data suggest that the level of economic activity continued to weaken early in the third quarter. Payroll employment growth slowed further in July and industrial activity apparently declined for the third time in the last four months. Auto production is being particularly affected by weak sales and a record buildup of large car stocks. Both capital spending and housing starts remained well below levels of late 1978. Consumer prices through June increased at about the same rapid rate as in previous months this year.

According to preliminary data, real gross national product declined in the second quarter at a 3.3 percent annual rate, reflecting the impacts of continuing rapid inflation and gasoline shortages on an already slowing economy. Real consumer spending, which had increased only fractionally in the first quarter, declined at a 3-1/2 percent annual rate in the second quarter, with particularly sharp reductions in spending on consumer durables. Outlays for new capital equipment fell sharply, and housing expenditures continued to decline. Final purchases fell faster than production, and the rate of inventory accumulation moved substantially higher.

Employment and Production

As a result of the slowing in overall economic activity, labor demand has weakened in recent months. Following employment gains averaging

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

	1978	1979			
		QI	QII	June	July
		- - - Average monthly changes - - -			
<u>Nonfarm payroll employment</u> <u>2/</u>	297	327	149	170	44
Strike adjusted	281	329	158	158	31
Manufacturing	62	78	-22	-8	-62
Durable	53	69	-15	8	-16
Nondurable	9	9	-7	-16	-46
Construction	37	43	32	28	48
Trade, Finance and Services	145	169	76	72	30
Private nonfarm production workers	224	245	65	97	13
Manufacturing production workers	45	56	-35	-24	-53
<u>Total employment</u> <u>3/</u>	275	329	-29	436	456
Nonagricultural	268	344	-2	360	454

1/ Changes are from final month of preceding period to final month of period indicated.

2/ Survey of establishments. Not strike adjusted, except where noted.

3/ Survey of households.

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

	1973	1978	1979			
			QI	QII	June	July
Total, 16 years and older	4.9	6.0	5.7	5.7	5.6	5.7
Teenagers	14.5	17.0	15.8	16.2	15.3	15.3
20-24 years old	7.8	5.4	8.7	8.8	8.9	9.0
Men, 25 years and older	2.5	3.2	3.2	3.2	3.1	3.3
Women, 25 years and older	4.0	5.0	4.9	4.9	4.8	4.7
White	4.3	5.2	5.0	4.9	4.9	4.9
Black and other	8.9	11.9	11.4	11.6	11.3	10.8
Fulltime workers	4.3	5.5	5.2	5.2	5.1	5.3
White collar	2.9	3.5	3.4	3.3	3.4	3.2
Blue collar	5.3	6.9	6.5	6.7	6.5	6.8

325,000 per month in the first quarter of the year, employers added 150,000 workers per month to payrolls in the second quarter. In July employment at nonfarm establishments rose only 45,000 from June. Factory employment dropped 60,000 in July--the fourth consecutive monthly decline--with widespread small cutbacks among producers of both durable and nondurable goods. Total manufacturing employment is now down about 130,000 from its March peak; in comparison, manufacturing employment fell by about 175,000 in the first six months of the 1973-75 recession, but as that recession deepened, the drop in factory employment reached about 2-1/3 million.

Employment in the transportation equipment industry, which had been declining since March, was little changed last month. However, since the July survey week, automakers have announced further layoffs and have extended scheduled downtime for model changeover at many of their large-car and truck assembly plants. The overall factory workweek--at 40.2 hours--was about unchanged in July. Outside of manufacturing, construction employment advanced somewhat further and small hiring gains occurred in most service-producing industries. However, retail trade employment was lower for the second month in a row.

Total employment, as measured by the household survey, rose 450,000 in July, but unemployment was little changed. The overall jobless rate edged up to 5.7 percent; jobless rates for most experienced and skilled workers were little different from those prevailing since last August. While monthly movements in the household and establishment surveys have diverged several times this year, both surveys have shown a similar slackening in labor demand since March.

Available data suggest that industrial production declined by a small amount again in July. After an uneven performance during the first half of 1979, the index for June was only fractionally above its December 1978 level. The further decline estimated for July reflects reduced output of cars and other consumer goods as well as a decrease in the production of trucks. Auto assemblies, which were at an annual rate of 8.8 million units in July, were only about 3 percent lower than in June, but industry schedules have been trimmed sharply to a 7.3 million unit rate in August in order to reduce dealer inventories of the less fuel-efficient models. Business equipment output apparently was about unchanged in July as small advances in some machinery industries were offset by a decline in production of business vehicles. In addition, there apparently was a small decrease in the output of materials. With the probable decline in production, capacity utilization rates in manufacturing also edged lower to about 1-3/4 percentage points below its highest recent level in March 1979.

Personal Income and Consumer Spending

Real personal income declined again in June as growth in nominal income slowed and prices of consumer goods continued to rise rapidly. In nominal terms, total personal income rose at a \$9-1/2 billion annual rate in June, bringing the average monthly gain during the second quarter to slightly more than \$10 billion--down from the \$15 billion average during the preceding three months. Monthly increases in private wages and salaries between March and June averaged less than \$4 billion at an annual rate compared with a

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1977	1978		1979			
		H1	HII	QI	QII	May	June
- - Average monthly change, in billions of dollars - -							
Total personal income	\$13.9	\$15.2	\$20.4	\$15.1	\$10.3	\$12.3	\$9.4
Nonagricultural income	12.6	15.4	18.8	15.3	10.9	13.0	10.5
Agricultural income	1.2	-.1	1.6	-.2	-.7	-.6	-1.1
Wage and salary disbursements	8.4	11.7	11.2	11.8	5.1	5.8	5.9
Private	7.0	10.6	9.7	10.8	3.8	6.3	4.7
Manufacturing	2.5	2.8	3.6	3.5	.1	.8	.1
Other income	6.0	4.6	9.7	5.6	5.4	6.8	3.9
Less: Personal contributions for social insurance	.5	1.0	.5	2.4	.2	.2	.3
- - Percentage change, compound annual rates <u>1/</u> - -							
Total personal income							
Current dollars	11.5	12.0	13.9	11.4	8.9	7.9	6.0
Constant dollars <u>2/</u>	4.5	2.7	4.5	.4	-4.1	-5.1	-5.7
Wage and salary disbursements							
Current dollars	11.2	13.4	12.2	12.7	7.7	5.8	5.7
Constant dollars <u>2/</u>	4.2	4.1	2.9	1.5	-5.2	-7.2	-6.0
Memorandum:							
Per capita real disposable income <u>3/</u>	4.5	2.3	4.4	1.2	-2.4	n.a.	n.a.

1/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly per cent changes at annual rates, not compounded.

2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

3/ Deflated by the implicit price deflator for personal consumption expenditures.

rate of more than \$10 billion earlier in the year. In real terms, total personal income declined through the second quarter and by June was off more than 2 percent (not annual rate) from its December peak.

Reflecting in part the declines in income, weakness in consumer spending continued in June as total retail sales in current dollars declined about 1 percent. These sales have now dropped for three months in a row and are slightly below their level for December 1978. Sales declines have been most apparent in the automotive sector, but there also has been a widespread slowing in nonautomotive sales as well. Excluding autos and nonconsumption items, nominal retail sales in June were only fractionally higher for the third month in a row, while sales of general merchandise, apparel, and furniture (GAF)--an indicator of discretionary consumer spending--declined in June.

Consumer outlays for automobiles have fallen sharply since early spring in association with **higher debt burdens and uncertain income and energy prospects**. Total domestic auto sales in July were at an 8.1 million unit rate, higher than in June, but still about 10 percent below the January to April average. Large car sales increased somewhat in July, but remained at a low level; as a result, stocks of large cars relative to current sales increased to record levels. Small car sales--both domestic and foreign--generally have been strong and might have been higher but for tight supplies. So far the drop in domestic auto sales in the past year is smaller than the drop during the 1973-74 period. Sales in the May-July period were down more than 20 percent from their quarterly peak in the second quarter of last year. In the 1973-74 period, sales ultimately fell more than 40 percent from their peak to their trough.

Measures of consumer attitudes continued to decline in July as both the University of Michigan and Conference Board surveys indicated consumer confidence to be at the lowest level since the 1974-75 recession. The further weakening of the Michigan index in July mainly reflected lowered consumer expectations of future business conditions. The Conference Board results stemmed both from a less favorable appraisal of current economic conditions than in the previous survey and reduced expectations of future economic prospects.

Business Investment

Business investment spending remained sluggish through June, mainly because of reduced shipments of capital equipment. Shipments of nondefense capital goods fell about 2 percent in June, and in the second quarter as a whole were down 0.4 percent from the first quarter. In addition, truck sales continued to decline through June. On the other hand, nonresidential construction expenditures remained strong, rising 7 percent (not an annual rate) in the second quarter following a weather-related dip during the winter.

Near-term capital spending commitments have recouped some of their earlier weakness as orders for nondefense capital goods rose 5-3/4 percent in June following a 2 percent increase in May. However, because of a large decline in April, the level of these orders in June--in current dollars--was still somewhat below the recent March peak. New orders for the machinery component of these capital goods--which is indicative of underlying near-term equipment demand--increased 2-1/3 percent in June, but these orders as well were still below their March peak.

BUSINESS INVESTMENT SPENDING

(Per cent change from preceding comparable period, based on seasonally adjusted data)

	1978	1979					June 1978
	QIV	QI	QII	Apr.	May	June	to June 1979
Nondefense capital goods shipments	4.4	5.1	-4	-4.4	1.5	-1.9	13.6
Nonresidential construction put-in-place	5.3	.0	7.0	-3	4.4	0.8	20.2
Building	5.4	.6	10.5	-1.4	6.1	2.3	25.6
Nonbuilding	5.2	-7	2.7	1.1	2.3	-1.2	13.5

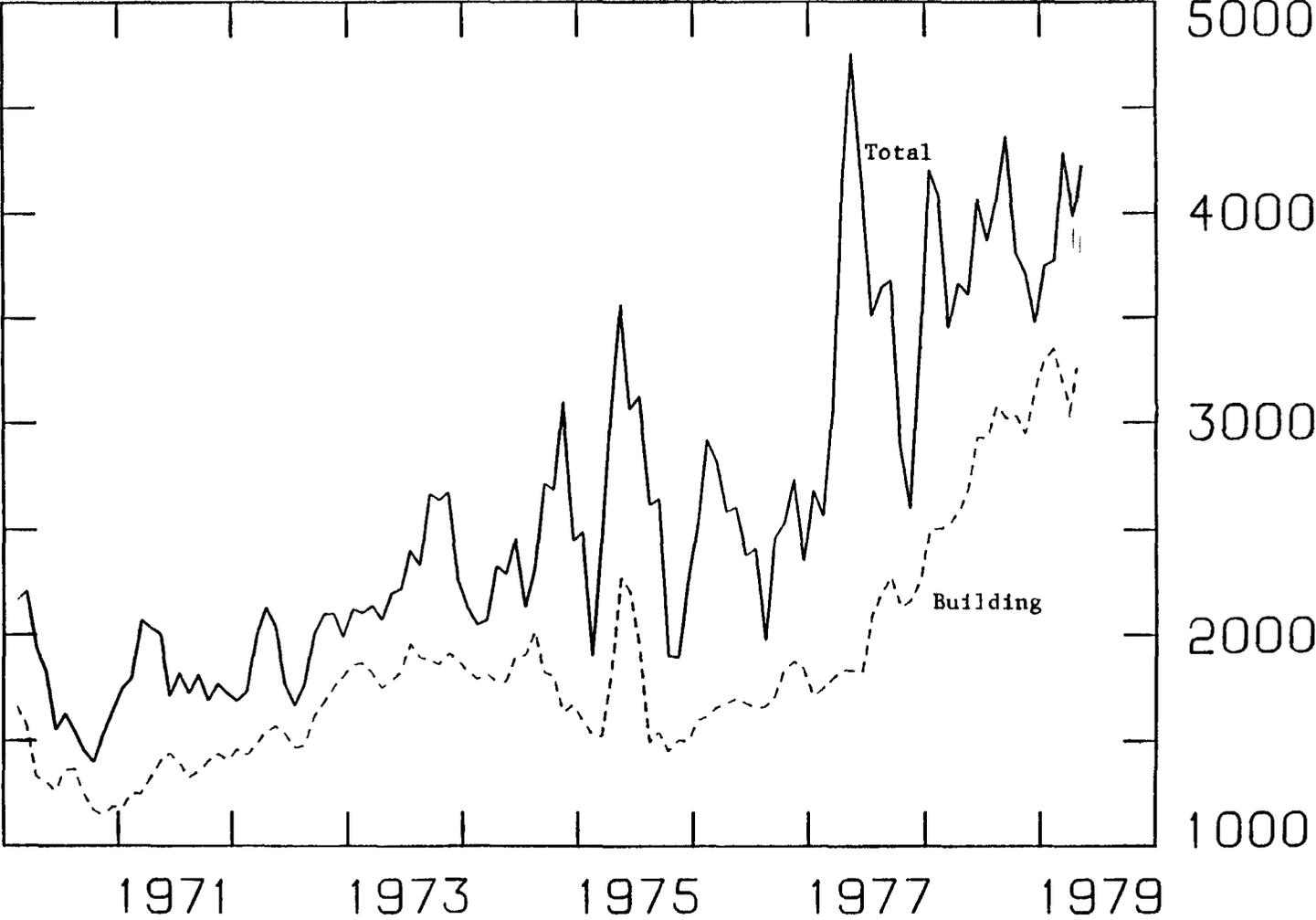
BUSINESS SPENDING COMMITMENTS

(Per cent change from preceding comparable period, based on seasonally adjusted data)

	1978	1979					June 1978
	QIV	QI	QII	Apr.	May	June	to June 1979
Nondefense capital goods orders	12.4	10.0	-5.4	-12.6	2.0	5.7	26.8
Machinery	8.8	7.7	-6.2	-12.4	.4	2.3	19.1
Nonmachinery	21.4	15.1	-3.6	-12.9	5.6	12.7	44.4
Ratio of unfilled orders to shipments ^{1/}							
Nondefense capital goods	5.83	6.16	6.63	6.32	6.35	6.68	
Machinery	4.36	4.49	4.56	4.50	4.47	4.60	
Nonmachinery	10.33	11.03	12.82	11.82	11.94	12.92	

^{1/} End of period backlogs to average shipments, in months.

PRIVATE CONSTRUCTION CONTRACTS AWARDED
(SEASONALLY ADJUSTED, MILLIONS OF DOLLARS, CENTERED 3 MONTH MOVING AVERAGES)



Recent business commitments for construction spending suggest that some slackening of demand has emerged. In the first half of 1979 total contracts for private construction in current dollars were about 10 percent below their average for 1978 as a whole, though commitments in the building area did increase noticeably in June after having edged lower through most of the spring.

Inventories

Inventory investment at the manufacturing level continued at a rapid pace through the end of the second quarter, but significant overhangs do not appear to have emerged. Manufacturers' inventories in book value terms increased at an annual rate of \$37-1/2 billion in June, well above the May rate of accumulation. For the second quarter as a whole, stocks were accumulated at a \$36 billion rate--the largest quarterly advance since the third quarter of 1974. Manufacturers' shipments in June declined substantially, in part because of fuel and trucking disruptions. As a result the ratio of total manufacturers' inventories to shipments increased substantially, but is still generally in the normal range by historical standards.

Manufacturers' durable goods stocks grew at a \$25 billion annual rate in June, with large advances for nonelectrical machinery and fabricated metals. In contrast, producers of motor vehicles and parts reduced inventories as they cut back production. Stocks of nondurable goods rose in June at a \$12-1/2 billion annual rate; much of this accumulation was concentrated in the food industry, probably reflecting shipping delays brought on by the independent truckers'

BUSINESS INVENTORIES
(Billions of dollars; annual rate of change
in seasonally adjusted book values)

	1978				1979			
	QI	QII	QIII	QIV	QI	QII	May(r)	June(p)
Manufacturing and trade	45.5	44.6	36.7	39.5	49.2	n.a.	56.4	n.a.
Manufacturing	16.6	22.8	18.0	15.0	30.4	36.0	27.9	37.4
Durable	13.2	15.9	14.0	11.9	24.6	25.1	20.6	24.9
Nondurable	3.4	6.9	4.1	3.1	5.8	11.0	7.3	12.6
Trade, total	28.9	21.8	18.7	24.5	18.9	n.a.	28.5	n.a.
Wholesale	18.5	10.2	7.7	14.6	13.2	n.a.	7.4	n.a.
Retail	10.4	11.6	11.0	9.9	5.6	n.a.	21.1	n.a.

r = Revised.
p = Preliminary.

INVENTORY TO SALES RATIOS

	1978				1979			
	QI	QII	QIII	QIV	QI	QII	May(r)	June(p)
Manufacturing and trade	1.46	1.43	1.43	1.40	1.41	n.a.	1.40	n.a.
Manufacturing	1.56	1.52	1.54	1.49	1.48	1.54	1.48	1.53
Durable	1.90	1.86	1.87	1.80	1.80	1.91	1.83	1.92
Nondurable	1.17	1.15	1.16	1.13	1.10	1.11	1.08	1.10
Trade, total	1.37	1.33	1.33	1.32	1.33	n.a.	1.33	n.a.
Wholesale	1.26	1.20	1.20	1.20	1.23	n.a.	1.18	n.a.
Retail	1.47	1.46	1.46	1.44	1.43	n.a.	1.47	n.a.

r = Revised.
p = Preliminary.

protest. By stage-of-fabrication, manufacturers' inventories of finished goods increased in June at a \$12 billion annual rate; excluding the strike-related buildup of April, this June advance was the largest monthly increase in over two years.

Residential Construction

Total private housing starts increased 6 percent in June to a 1.9 million unit annual rate, and building permits also edged up. Both indicators of new construction activity rebounded in the second quarter from the first quarter when they had been depressed, in part, by severe weather. Nonetheless, the pace of starts and permits in the second quarter were well below the recent peaks reached in 1978.

Multifamily housing activity rebounded in May and June, following five months of reduced activity. This recent strength in the multifamily sector appears to reflect both increased HUD subsidized (Sec. 8) units in June and continued demand pressures. Rental vacancy rates (largely reflecting multifamily units) edged up slightly in the second quarter from the record low recorded in the first quarter of the year.

Activity in the single-family market has been relatively stable in recent months. These starts increased 4-1/2 percent in June to the upper end of the 1.2-1.3 million unit annual rate range they have maintained since March, but this range is well below last year's level. New home sales in May were essentially unchanged from April's pace, which was below the already reduced rate of sales in the first quarter. With sales dropping, the stock of unsold new

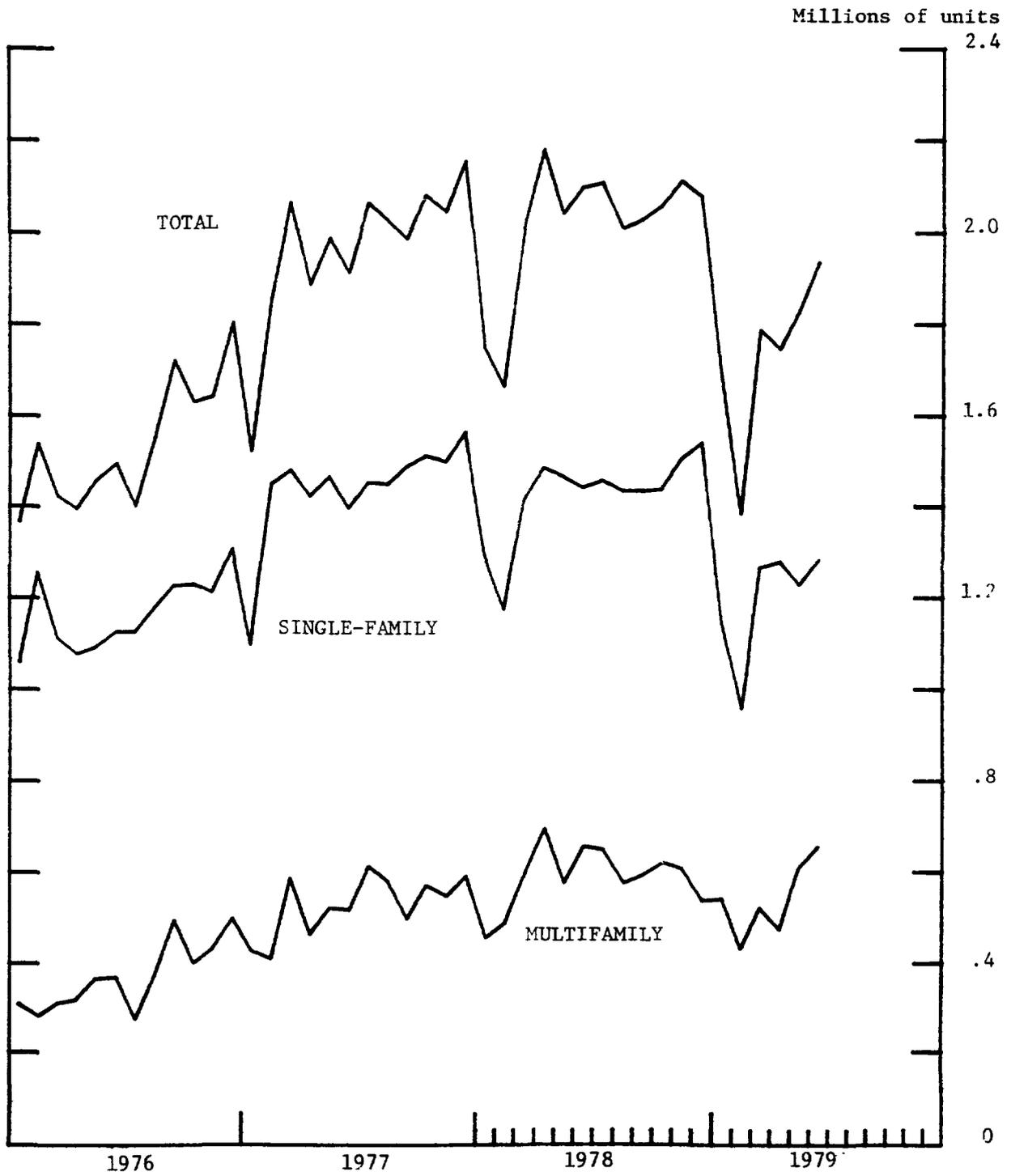
NEW PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1978	1979				
	Annual	QI	QII	Apr. ^{1/}	May ^{1/}	June ^{2/}
Total						
Permits	1.80	1.50	1.61	1.52	1.62	1.68
Starts	2.02	1.62	1.84	1.75	1.83	1.94
Single-family						
Permits	1.18	.95	1.03	1.04	1.05	1.01
Starts	1.43	1.12	1.26	1.28	1.23	1.28
Sales						
New homes	.82	.75	—	.73	.73	n.a.
Existing homes	3.91	3.66	—	3.76	3.86	n.a.
Multifamily						
Permits	.62	.54	.58	.48	.57	.67
Starts	.59	.50	.58	.47	.60	.65
Mobile home shipments	.28	.28	.28	.27	.27	.29

^{1/} Regular monthly revision.

^{2/} Preliminary estimates except permits which reflect first monthly revision.

NEW PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



homes has been increasing, and in April and May the inventory of unsold homes represented more than 7 months' supply at current sales rates--the highest since September 1975.

Government Sector

The federal budget, on a seasonally-adjusted NIA basis, moved further toward surplus during the second quarter, as personal tax receipts rose at a 21 percent annual rate while total expenditures grew at a 6 percent annual rate, about the same rate of increase as in the first quarter.

The continued strength in federal tax receipts during the second quarter reflected surprisingly large final settlements on 1978 tax liabilities and higher than expected personal income tax withholding. Growth in federal outlays was held down by higher loan repayments from farmers to the Commodity Credit Corporation (CCC), which are handled as negative expenditures in the national income accounts, and by a reduced "fill rate" for the strategic petroleum reserve (SPR). Even though CCC loan repayments and a further reduction in SPR oil purchases are expected to reduce net outlays during the current quarter, total federal spending is expected to rebound because of the recent 10 percent cost of living increase for social security recipients (\$9.6 billion at an annual rate), an expected rise in unemployment benefits, and continued strong defense spending.

State and local capital outlays as measured by the value of construction put-in-place declined by 6 percent in June. Building and highway construction accounted for the bulk of this decline. Nominal construction

activity has made up less than half of the large loss that occurred in January and February, and in real terms state and local construction activity in June was down 13-1/2 percent from last December.

After posting employment gains of about 30,000 per month in the second quarter, state and local government payrolls increased by 10,000 in July. Public service employment as of the end of June totaled 592,000. Title II employment has reached its target level and is expected to remain at this level for the duration of fiscal 1979.

Prices

Aggregate price measures continue to indicate rapid rates of inflation in the economy. The GNP deflator increased at nearly a 10 percent annual rate over the first two quarters of 1979, and the consumer price index increased at about a 13-1/4 percent rate over the December-June period. This persistence of high inflation rates during a period of declining economic activity does not appear unusual; in the earlier cyclical downturns of the 1970's, overall inflation rates did not decelerate significantly until the latter stages of those recession periods.

The rate of increase in consumer prices in June was nearly as large as in previous months, as energy prices posted their largest monthly advance on record--5.6 percent. Indications are that these large energy price increases have continued into the third quarter.

Food prices slowed in June to a 2 percent annual rate of increase as earlier declines in farm prices showed up at grocery stores. Retail meat prices fell in June and further declines appear likely in the near-term because

RECENT CHANGES IN CONSUMER PRICES ^{1/}
 (Percent change at compound annual rates; based
 on seasonally adjusted data) ^{2/}

	Relative importance Dec. 1978	1978	1979			
			QI	QII	May	June
All items	100.0	9.0	13.0	13.4	13.0	11.8
Food	18.2	11.8	17.7	7.5	8.3	2.0
Commodities (nonfood)	41.1	7.7	12.9	15.8	12.7	15.7
Services	40.8	9.3	10.6	13.8	15.3	12.5

Memoranda:

All items less food and energy ^{3/}	73.3	8.5	9.3	11.2	10.7	10.0
Gas and electricity	3.4	7.9	10.7	29.9	30.9	39.7
Gasoline	4.2	8.5	35.6	90.8	59.7	67.5
Homeownership	23.6	12.4	16.7	18.0	15.7	16.9

^{1/} Based on index for all urban consumers.

^{2/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{3/} Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity. Not seasonally adjusted.

RECENT CHANGES IN PRODUCER PRICES
 (Percent change at compound annual rates; based
 on seasonally adjusted data) ^{1/}

	Relative importance Dec. 1978	1978	1979			
			QI	QII	May	June
Finished goods	41.0	9.2	13.7	7.5	4.5	6.2
Consumer foods	10.4	11.9	20.1	-10.5	-15.3	-14.5
Consumer nonfoods	18.6	8.4	12.9	17.3	15.0	16.6
Capital equipment	12.1	8.0	9.8	9.6	7.9	6.1

Materials:

Intermediate ^{2/}	44.8	8.3	13.2	15.1	12.2	11.6
Construction	8.3	11.0	11.6	7.0	1.5	6.4
Crude nonfood	4.8	15.6	29.5	21.7	27.5	39.1
Crude food	6.8	18.3	30.6	-6.8	-3.4	-14.2

Memorandum:

Energy commodities ^{3/}	11.0	7.1	20.8	58.4	51.1	50.6
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^{1/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{2/} Excludes intermediate materials for food manufacturing and manufactured animal feeds.

^{3/} Fuels and related products and power. This series is on a commodity basis, while the other data in this table are on a stage of processing basis.

of a large drop in livestock prices at the farm level. Even with the June slowing, however, food prices rose at a 12-1/2 percent annual rate over the first half of the year.

Outside the food and energy sectors, the CPI has been rising at a 10-1/4 percent rate since the beginning of the year, compared with an 8-1/2 percent rise during 1978. The main factor in this acceleration has been homeownership costs; a further large rise in June brought the annual rate of increase in this grouping to 17 percent over the first half of the year. Increases in new car prices slowed in June, but these prices rose over the first half of the year at a 12-3/4 percent annual rate. Prices for apparel and used cars continued to edge downward in June.

Wages

The average hourly earnings index rose at an 8-1/2 percent annual rate in July, continuing the recent pattern of relatively moderate increases. Over the first seven months of 1979, this index has risen at just under an 8 percent annual rate. The preliminary measure of hourly compensation in the nonfarm business sector for the second quarter increased at a reduced 7-3/4 percent annual rate, but remained 9-1/4 percent above a year earlier.

Collective bargaining agreements reached in the second quarter for workers covered by major agreements (1,000 or more workers) yielded first-year wage increases averaging 9 percent; increases in wages and benefits for those in large bargaining units averaged 10-1/2 percent. Because 1979 has a heavier collective bargaining schedule than that in 1978, newly negotiated wage increases will be a more important component of overall wage changes this year

HOURLY EARNINGS INDEX^{1/}
 (Percent change at compound annual rates;
 based on seasonally adjusted data)^{2/}

	July 77- July 78	July 78- July 79	1979			
			QI	QII	June	July
Total private nonfarm	8.2	7.6	9.0	6.8	6.4	8.4
Manufacturing	8.2	8.7	8.7	9.5	6.9	9.8
Contract construction	7.2	6.9	7.6	8.4	.2	8.6
Transportation and public utilities	7.3	6.6	10.7	3.4	7.2	.7
Total trade	9.1	7.8	10.7	5.3	7.6	7.7
Services	7.7	6.4	8.3	2.5	6.9	8.0

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

2/ Monthly percent changes at annual rates, not compounded.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
 (Percent change at annual rates)

	Average adjustment				1979	
	1975	1976	1977	1978	QI	QII
<u>Wage-rate settlements</u> (1,000 or more workers)						
First year adjustments	10.2	8.4	7.8	7.6	4.8 ^{2/}	9.0
Average over life of contracts ^{1/}	7.8	6.4	5.8	6.4	6.6	7.0
<u>Wage and benefit settlements</u> (5,000 or more workers)						
First year adjustments	11.4	8.5	9.6	8.3	2.5	10.6
Average over life of contracts ^{1/}	8.1	6.6	6.2	6.3	5.2	7.7
<u>Effective wage-rate adjustments</u> ^{3/} (1,000 or more workers)						
Current settlements	8.7	8.1	8.0	8.2	1.3	2.3
Prior settlements	2.8	3.2	3.0	2.0	.2	.9
Escalator provisions	3.7	3.2	3.2	3.7	.6	1.0
	2.2	1.6	1.7	2.4	.5	.5

1/ Excluding cost-of-living adjustments.

2/ The first-year change data do not reflect the pay increase received by a large number of railroad workers in the first quarter of 1979 because their contracts were retroactive to January 1978; under BLS practices this was reported as a second-year wage adjustment.

3/ Quarterly changes are not at annual rates.

than last. Nevertheless, cost-of-living and deferred increases combined have accounted for most of the wage increase for unionized workers so far this year. In several recent contracts--notably in the rubber, airline, and electrical equipment industries--workers have been successful in negotiating improved cost-of-living coverage.

Productivity and Costs

Output per hour in the total private economy is estimated to have declined for a second consecutive quarter in the second quarter of 1979. In the nonfarm business sector, real output fell at a 5-1/2 percent annual rate while hours of work rose fractionally, resulting in a drop at a 5-3/4 percent rate in measured productivity; this followed a 3 percent annual rate decline in the first quarter. In contrast, output per hour in the manufacturing sector is estimated to have rebounded at a 3-1/4 percent rate in the second quarter after falling at a 2 percent rate in the preceding quarter. The particularly dismal productivity performance in the first half of this year for the nonfarm business sector follows an increase of 1-1/2 percent during the four quarters of 1978--a rate of growth in line with recent estimates of its longer run trend. Last year's increase in manufacturing productivity was 1-3/4 percent, according to revised estimates.

The weak productivity growth in the first half of 1979 combined with continued rapid increases in hourly compensation resulted in unit labor costs in the private economy rising at about a 14 percent annual rate--a sharp acceleration from the increase of just over 8 percent last year. In manufacturing, unit labor costs rose at a 6 percent annual rate in the second quarter to a level 7 percent above a year ago.

PRODUCTIVITY AND COSTS
 (Per cent change from preceding period at compound annual rates;
 based on seasonally adjusted data)

	1978		1979		1976:QIV- 1977:QIV	1977:QIV- 1978:QIV	1978:QII 1979:QII
	QIII	QIV	QI	QII			
<u>Output per hour</u>							
Total private business	2.6	.8	-2.8	-3.8	1.8	1.3	-.8
Nonfarm business	2.9	1.3	-3.0	-5.7	1.6	1.6	-1.2
Manufacturing	7.1	1.3	-1.9	3.3	3.3	1.8	2.4
Durable	6.7	-.6	-4.1	3.5	2.8	1.2	1.3
Nondurable	8.0	4.3	1.7	2.8	4.2	2.9	4.2
<u>Compensation per hour</u>							
Total private business	9.4	9.0	11.4	9.3	7.8	9.7	9.8
Nonfarm business	9.1	9.4	10.7	7.8	8.0	9.7	9.2
Manufacturing	9.2	9.3	10.4	9.6	8.4	9.1	9.6
Durable	8.6	9.7	10.4	9.4	8.7	8.8	9.5
Nondurable	9.3	7.8	9.9	10.5	7.4	9.2	9.3
<u>Unit labor costs</u>							
Total private business	6.6	8.2	14.6	13.6	5.8	8.3	10.7
Nonfarm business	6.0	8.0	14.1	14.3	6.3	8.0	10.5
Manufacturing	1.9	7.9	12.5	6.1	4.9	7.2	7.0
Durable	1.8	10.3	15.1	5.7	5.8	7.5	8.1
Nondurable	1.2	3.3	8.0	7.4	3.1	6.1	4.9

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
	<u>\$ billions</u>		<u>Per cent at annual rates</u>		
<u>Monetary and credit aggregates</u> ^{1/}					
Total reserves	July	40.8	11.7	1.7	-0.7
Nonborrowed reserves	July	39.7	19.7	-0.9	-0.3
Money supply					
M1	July	372.3	10.7	8.8	5.1
M2	July	914.3	13.1	11.0	7.7
M3	July	1572.6	12.6	8.3	8.9
Time and savings deposits (less CDs)	July	542.0	14.6	12.5	9.7
CDs ^{2/}	July	84.6	-0.3	-10.4	-3.4
Thrift deposits (S&Ls + MSBs + Credit Unions)	July	652.4	8.3	9.0	9.5
Bank credit (end of month)	July	1063.5	12.5	13.6	12.5

Indicator	Latest data		Net Change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
<u>Market yields and stock prices</u>						
Federal funds	wk. endg.	8/1/79	10.75	.33	.53	2.85
T-bill (90 day)	"	8/1/79	9.16	.20	-.32	2.38
Commercial paper (90-119 day)	"	8/1/79	9.98	.32	.22	2.17
Utility issue Aaa	"	8/3/79	9.56	—	-.01	.66
Municipal bonds (Bond Buyer) 1 day		8/6/79	6.14	.06	-.13	.02
FNMA auction yield (FHA/VA)		7/30/79	10.64	-.23	-.24	-.82
Dividend price ratio (common stocks)	wk endg.	8/1/79	5.48	-.04	.12	.50
NYSE index (12/31/65=50)	end of day	7/30/79	58.79	.41	1.43	2.20

	Period	Net Change or Gross Offerings			
		Latest Data	Year ago	Year to Date	
				1979	1978
<u>Credit demands</u>					
Business loans at commercial banks ^{1/}	July	3.6	1.9	28.3	18.9
Consumer instalment credit outstanding ^{1/}	June	2.9	4.2	22.0	20.8
Mortgage debt outstanding (major holders) ^{1/3/}	May	9.5	10.2	34.1	35.0
Corporate bonds (public offerings)	July	1.9e	2.1	14.9e	12.2
Municipal long-term bonds (gross offerings)	July	3.2e	3.9	23.5e	28.5
Federally sponsored agcy. (net borrowing)	July	4.1e	2.0	15.9e	13.1
U.S. Treasury (net cash borrowing)	July	5.2e	3.2	11.2e	26.5

^{1/} Seasonally adjusted.

^{2/} \$ billions, not at annual rates

^{3/} Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Net borrowing by the private domestic nonfinancial sectors appears to have declined a bit recently as the pace of economic activity has slowed. Although nonfinancial firms maintained both their pace of borrowing from banks and their strong issuance of commercial paper, their public bond offerings dropped substantially during July. In the household sector, growth of consumer credit declined over the course of the second quarter, and, though residential mortgage borrowing rebounded in the spring, available evidence suggests a fall-off in July. State and local bond offerings also declined during the month, in part due to reduced sales of mortgage revenue bonds. The Treasury, on the other hand, has been a net borrower this summer following a seasonal paydown of debt in the second quarter.

Growth of the monetary aggregates continued rapid in July. M-1 is estimated to have increased at a 10-3/4 percent annual rate and M-2 at a 13 percent rate. Savings deposits at commercial banks registered a second straight monthly advance, and an upturn in large time deposits offset some slowing in the strong growth of small time accounts. At S&Ls and MSBs, total deposit growth was moderate, with reports indicating that reliance by S&Ls on large-denomination CDs declined after a record inflow in June.

In response to strong monetary growth, weakness of the dollar on foreign exchange markets, and continued rapid inflation, the Federal Reserve discount rate was raised in July by one-half percentage point to 10 percent, an all-time high. The federal funds rate rose to around 10-5/8 percent, after trading at about 10-1/4 percent since late April. Most other domestic money market rates have risen 15 to 30 basis points over the intermeeting period, while Eurodollar rates have risen somewhat more--a pattern fairly common

SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

	1978 1/		1979 1/		1979 2/			Change from
	High*	Low	High	Low**	FOMC July 11	July 31	August 7	July FOMC
<u>Short-term rates</u>								
Federal funds <u>1/</u>	10.25	6.58	10.75	9.93	10.28	10.75	10.68p	+ .40
Treasury bills								
1-month	9.25	5.82	9.99	8.76	9.35	9.07	9.31	- .04
3-month	9.30	6.16	9.69	8.85	9.27	9.18	9.40	+ .13
6-month	9.51	6.45	9.63	8.91	9.18	9.28	9.35	+ .17
1-year	9.62	6.55	9.68	8.64	8.76	8.95	8.90	+ .14
Commercial paper								
1-month	10.29	6.48	10.32	9.49	9.91	9.95	10.08	+ .17
3-month	10.52	6.68	10.57	9.66	9.86	9.99	10.06	+ .20
6-month	10.56	6.70	10.62	9.60	9.78	9.96	10.04	+ .26
Large negotiable CDs <u>3/</u>								
1-month	10.36	6.61	10.36	9.82	10.04	10.12	10.17	+ .13
3-month	10.96	6.76	10.92	9.84	10.05	10.27	10.27	+ .22
6-month	11.52	7.01	11.51	9.86	10.10	10.46	10.41	+ .31
Eurodollar deposit <u>1/</u>								
1-month	11.48	6.86	11.14	10.30	10.61	11.03	10.90	+ .29
3-month	11.95	7.20	11.81	10.40	10.64	11.13	11.00	+ .36
Bank prime rate	11.57	7.75	11.75	11.50	11.50	11.75	11.75	+ .25
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	9.58	7.38	9.61	8.76	8.90	9.05	8.94	+ .04
7-year	9.22	7.72	9.35	8.73	8.90	9.02	8.91	+ .01
20-year	8.99	8.00	9.31	8.80	8.90	8.98	8.90	0
Municipal (Bond Buyer) <u>4/</u>								
Corporate Aaa New issue <u>5/</u>	9.30	8.61	9.87	9.42	--	9.63	9.56p	--
Recently offered <u>6/</u>	9.54	8.48	9.94	9.40	9.41	9.59	9.57p	+ .16
Primary conventional mortgages <u>6/</u>	10.38	8.98	11.13	10.38	11.13	11.08	11.08	- .05
	Low 7/	High 7/	Low 7/	High 7/	FOMC July 11	July 31	August 7	July FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	742.12	907.74	813.71	873.66	843.86	846.42	859.81	+15.95
NYSE Composite	48.43	60.38	54.25	60.18	58.86	59.14	60.18	+1.32
AMEX Composite	119.73	176.87	154.98	200.05	197.83	198.69	199.43	+1.60
NASDAQ (OTC)	102.66	149.53	119.92	143.30	138.85	141.33	143.30	+4.45

1/ Daily averages for statement week except where noted.

2/ One-day quotes except as noted.

3/ Secondary market.

4/ One-day quotes for preceding Thursday.

5/ Averages for preceding week.

6/ One-day quotes for preceding Friday.

7/ Calendar week averages.

* All highs were reached at or close to the end of 1978.

** Lows were generally reached at end of June or early July.

during periods of weakness in the dollar. Long-term bond yields have risen as well, but by considerably less than short-term interest rates.

Monetary Aggregates and Bank Credit

M-1 growth in July, while below the June pace, was about equal to the average rate of increase in this aggregate over the spring months. The diversion of funds from demand deposits to ATS and New York NOW accounts is estimated to have reduced measured M-1 growth last month by only 1-1/4 percentage points, about the same as in the second quarter and considerably less than the 2-3/4 percentage-point effect in the first. Given the behavior of income and interest rates, the sharp increase in M-1 during July provides further evidence that the underlying demand for transactions balances has recovered from its extraordinary weakness early in the year.

Savings deposits at commercial banks posted a second straight monthly increase in July after eight months of almost uninterrupted decline. Savings accounts of individuals were especially strong, growing at an 11 percent annual rate. In addition, noncompetitive tenders for Treasury bills and inflows to money market mutual funds picked up in July. Taken together, these recent developments--occurring against a backdrop of weak retail sales and deteriorating consumer sentiment--suggest that households may have been accumulating liquid assets in lieu of making major outlays or longer-term investment commitments.^{1/}

^{1/} A survey of 60 banks across the nation, conducted by the Federal Reserve Banks, indicated that those bankers who observed unusual strength in savings deposits at their banks in June and July most often cited as principal causes reduced household consumption spending and abatement of the public's sizable adjustment to the rapid rise in interest rates that occurred last fall. All but a few banks reported raising their interest rates on savings accounts to the new 5-1/4 percent ceiling authorized on July 1, and several cited this change as an explanation for enhanced growth in savings deposits. Contrary to press reports, few banks have implemented or are considering cost-reducing changes in other terms on savings accounts to offset the higher interest rate.

MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth) 1/

	1978			1979				July '78 to July '79 ^e
	H1	QIII	QIV	QI	QII	June	July ^e	
<u>Major monetary aggregates</u>								
1. M-1 (currency plus demand deposits)	8.0	7.9	4.1	-2.1	7.6	14.8	10.7	5.1
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	7.7	9.8	7.6	1.8	8.6	14.2	13.1	7.7
3. M-3 (M-2 plus all deposits at thrift institutions)	8.3	10.3	9.3	4.7	7.9	11.9	11.1	8.5
<u>Bank time and savings deposits</u>								
4. Total	12.2	11.3	12.3	8.4	1.2	0.8	12.0	7.6
5. Other than large negotiable CDs at weekly reporting banks	7.6	11.0	10.2	4.5	9.4	13.8	14.6	9.7
6. Savings deposits	2.9	2.9	0.2	-9.6	-3.1	7.8	9.4	-1.5
7. Individuals <u>2/</u>	2.7	4.1	0.0	-9.4	-2.9	6.5	11.2	-1.3
8. Other <u>3/</u>	5.2	-10.1	0.0	-13.0	-8.1	24.7	-8.1	-3.3
9. Time deposits	11.7	17.9	18.2	15.6	18.5	17.6	18.1	18.9
10. Small time <u>4/</u>	6.8	12.7	15.8	16.5	36.3	36.0	22.5	25.0
11. Large time <u>4/</u>	21.5	26.9	22.4	13.6	-12.1	-16.9	9.2	7.9
12. Time and savings deposits subject to rate ceilings (6+10)	4.7	6.9	7.0	2.2	15.1	21.6	15.9	10.1
<u>Deposits at nonbank thrift institutions</u>								
13. Total	9.2	11.1	11.6	8.8	6.8	8.8	8.3	9.5
14. Savings and loan associations	9.5	12.3	13.1	11.3	7.8	9.9	10.4	11.2
15. Mutual savings banks	5.6	6.8	7.8	4.6	3.1	1.7	1.7	5.0
16. Credit unions	17.0	13.7	10.1	0.8	8.3	17.8	6.6	7.9
<u>MEMORANDA:</u>								
	Average monthly changes, billions of dollars							
17. Total U.S. Govt. deposits <u>6/</u>	0.3	1.1	-0.4	-2.0	1.5	4.5	2.2	0.1
18. Total large time deposits <u>7/</u>	3.6	2.9	4.7	1.3	-6.3	-7.2	0.5	0.4
19. Nondeposit sources of funds <u>8/</u>	0.8	1.4	3.0	3.0	2.1	3.1	n.a.	n.a.

e--estimated.

1/ Quarterly growth rates are computed on a quarterly average basis.

2/ Savings deposits held by individuals and nonprofit organizations.

3/ Savings deposits of business, government, and others, not seasonally adjusted.

4/ Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

5/ Growth rates computed from monthly levels are based on average of current and preceding end-of-month data.

6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

7/ All large time certificates, negotiable and nonnegotiable, at all CBs.

8/ Nondeposit borrowings of commercial banks from nonbank sources include federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), gross Eurodollar borrowings, and loans sold, less interbank borrowings.

n.a.--not available.

Growth of M-2 diminished slightly in July, owing to the slower expansion of M-1. Along with the pick-up in savings deposit inflows in July, growth in the time deposit component of M-2 accelerated, reflecting an upturn in large-denomination time deposits that more than offset slower, but nevertheless brisk, growth in small time accounts.^{1/} The July increase in the average level of large time deposits outstanding, following four months of substantial declines, was due partly to end-of-quarter window dressing and partly to the appearance both early and late in the month of a cost differential favoring domestic CDs over Eurodollar borrowings as a source of funds for banks. Member banks are estimated to have augmented their net liabilities to their foreign branches by only \$100 million, in contrast to an average monthly increase of \$3 billion over the first half of the year.

Deposit growth at thrift institutions is estimated to have decelerated slightly in July. On an end-of-month basis, deposit inflows at S&Ls and MSPs slowed to about 6-3/4 percent from 10-1/4 percent in June. Deposit growth at S&Ls in the earlier month had been raised by record issuance of large-denomination CDs, with an apparent weakening in mortgage loan demand and a pickup in funds obtained through mortgage-backed bonds, S&L issuance of large CDs may have been reduced in July. Net issuance of MHCs at S&Ls picked up in July, as it often has in the first month of the quarter, a traditionally important reinvestment period at these institutions.

Total bank credit grew at a 12-1/2 percent annual rate in July, moderately below its pace in June. Expansion of total loans decelerated

^{1/} All of the banks reporting in the recent Reserve Bank survey are offering the new 4-year variable ceiling certificate, with nearly all offering a compounded maximum rate and a \$500 minimum denomination. However, inflows have been very weak so far, and were reported to be coming from maturing bank small time deposits other than MHCs.

COMMERCIAL BANK CREDIT

(Percentage changes at seasonally adjusted annual rates) 1/

	1978			1979				12 months ending July
	HI	QIII	QIV	Q1	QII	June ^e	July ^e	
1. Total loans and investments <u>2/</u>	14.0	11.1	7.9	14.1	14.0	15.7	12.5	12.5
2. Investment	8.5	3.2	-8.6	10.5	11.6	8.7	12.6	4.6
3. Treasury securities	9.6	-9.6	-36.8	7.7	23.0	14.0	23.8	-3.2
4. Other securities	7.8	11.0	7.8	12.0	5.8	6.0	6.6	9.4
5. Total loans <u>2/</u>	16.2	14.2	14.1	15.5	14.9	18.2	12.5	15.6
6. Business loans	16.7	11.4	9.3	21.8	19.5	16.9	16.7	17.0
7. Security loans	23.5	-28.7	-43.3	43.9	91.7	209.0	-15.3	9.9
8. Real estate loans	18.7	18.9	18.6	15.1	15.5	17.0	12.6	17.6
9. Consumer loans	20.5	15.6	16.1	14.2	13.7	11.6	n.a.	n.a.
MEMORANDA:								
10. Commercial paper issued by nonfinancial firms <u>3/</u>	11.5	28.9	42.7	24.4	53.6	52.9	60.8	43.1
11. Sum of items 6 and 10	12.4	12.6	11.7	22.0	22.1	20.3	20.0	18.8
12. Memo item 11 plus business loans from finance companies	13.2	10.7	15.4	20.5	21.5	20.2	n.a.	n.a.

e--estimated.

1/ Last-Wednesday-of-month series except for June and December, which are based on the last business day of the month.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/ Measured on an end-of-month basis.

n.a.--not available.

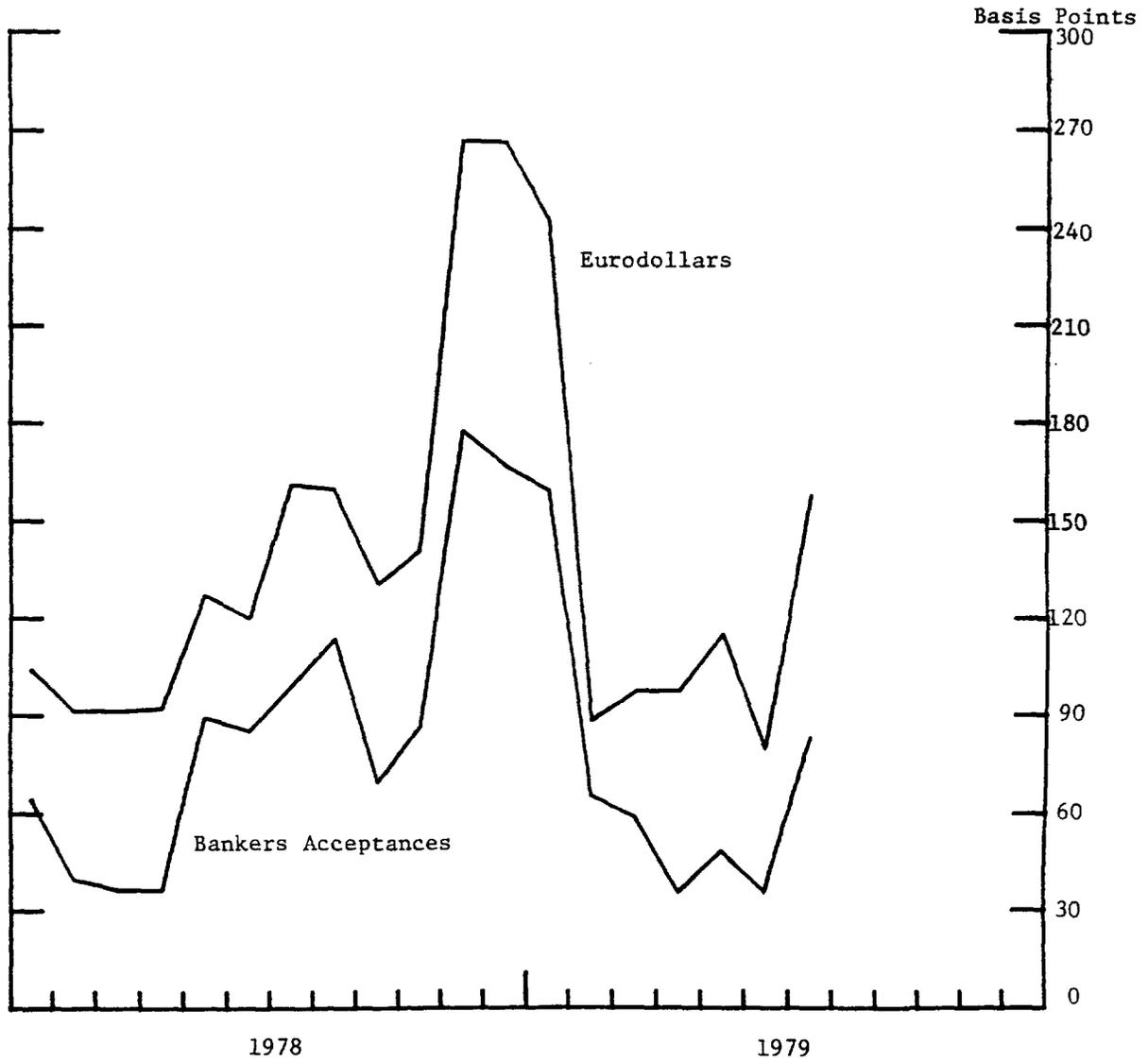
from the month earlier rate. Real estate lending slowed, while security loans, after advancing rapidly in June, declined in July as dealers in U.S. government securities reduced their holdings considerably. Growth in business loans continued at the June pace.

Bank portfolios of U.S. government securities expanded by \$1.9 billion, in July, continuing the pattern of net acquisitions that began at the start of the year. In the first seven months of 1979, banks increased their holdings of Treasury securities by \$8.8 billion, seasonally adjusted, after an equal decline in the last quarter of 1978 when the spreads between yields on competing short-term domestic and foreign private obligations, such as bankers acceptances and Eurodollars, and the yield on Treasury bills rose substantially (see chart on page III-8). It appears that some large banks acquired these U.S. government obligations this year in part as collateral to satisfy increased customer demands for security RPs. In addition, some banks may have responded to the relative improvement in yields on Treasury bills by acquiring these instruments to enhance their liquidity positions in preparation for potential takedowns of their record volume of unused loan commitments.

Business Finance

Growth of business loans at banks was virtually unchanged at a 16-3/4 annual rate in July, down from the 20-1/2 percent growth rate over the previous six months. Net issuance of commercial paper by nonfinancial corporations exceeded the strong second quarter pace, owing partly to large sales by foreign issuers. The difficulties experienced by Chrysler Financial Corporation following the loss of its commercial paper rating at the end of July have had no apparent spillover effect on investors' attitudes toward other sellers. Dealers report that lower-rated paper

Spreads of Yields on Selected Domestic and Foreign Obligations
over Yields on U.S. Treasury Bills^{1/}



^{1/} Annual effective yield on 3-month Eurodollars and 3-month bankers acceptances, respectively, minus that on 3-month U.S. Treasury bills.

issuers have continued to be able to raise cash, and the interest rate differential between high- and lower-grade commercial paper seems to have been unaffected.

Cross public offerings of corporate bonds fell to \$1.8 billion in July, less than half the previous month's total. A portion of this sharp decline is attributable to the earlier acceleration of offerings originally scheduled for July in order to take advantage of the June bond market rally. Public bond offerings by nonfinancial corporations were especially light in July, largely because of an unusually small slate of offerings by public utilities. Public issues by industrial firms were well below the June total but remained somewhat above the average monthly volume of the first five months of 1979. July's slate of financial issues also was smaller than June's, but the decline was moderate, and the total remained quite large.

Corporate bond yields have increased about 15 basis points since the July FOMC meeting, and the Board's index of recently offered, Aaa-rated utility bond yields currently stands at 9.57 percent. Measures of risk premia recently have widened somewhat, but remain narrow by historical standards. These spreads typically have widened appreciably during previous postwar economic contractions, although not until several months past the peak in activity.

Gross public offerings of common and preferred stock totaled about \$600 million in July, somewhat more than the average for the first half of 1979. As in other recent months, public utilities accounted for well over half of all new equity issues in July. Manufacturing and other industrial concerns generally have avoided issuing new equity recently, owing to the low level of price-earnings ratios. The average price-earnings ratio for Standard and Poor's 500 stock index is currently about 7.6, only slightly

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

	1978	1979					
	Year	QI	QII ^{e/}	June ^{e/}	July ^{e/}	Aug. ^{f/}	Sept. ^{f/}
		<u>Seasonally adjusted</u>					
Corporate securities--total	3,936	3,720	4,270	5,150	3,400	3,300	3,700
Publicly offered bonds	1,651	1,360	2,680	3,650	1,800	2,000	2,100
Privately placed bonds	1,422	1,670	1,140	1,100	1,000	1,000	1,000
Stocks	863	690	450	400	600	300	600
		<u>Not seasonally adjusted</u>					
Publicly offered bonds	1,651	1,473	2,833	3,800	1,950	1,600	1,800
By quality <u>1/</u>							
Aaa and Aa	853	950	1,475	1,750	1,450	--	--
Less than Aa <u>2/</u>	798	523	1,358	2,050	500	--	--
By type of borrower							
Utility	610	605	783	1,025	100	--	--
Industrial <u>3/</u>	526	378	842	1,475	700	--	--
Financial	515	490	1,208	1,300	1,150	--	--
Foreign securities--total ^{4/}	504	513	274	300	275	100	300

1/ Bonds categorized according to Moody's bond ratings.

2/ Includes issues not rated by Moody's.

3/ Includes equipment trust certificates.

4/ Includes both publicly offered and privately placed issues.

e/ Estimated.

f/ Forecast.

above its postwar low of 7.2 in 1974. Major stock price indexes have risen in recent days and now are near or above their previous highs for the year.

Municipal Securities

Gross sales of tax-exempt bonds dropped in July following an unusually large calendar of offerings in June. At \$3.3 billion, July's volume was close to the average pace of the first half of the year. The volume of new capital raised by state and local governments shrank from \$3.4 billion (seasonally adjusted) to about \$2.7 billion in July, while the value of refunding and advance refunding issues increased slightly during the month.

The volume of housing revenue bond issues declined in July and has averaged around \$500 million in the past three months, compared to \$890 million in the first four months of the year. The fall-off in issuance has occurred in the single-family area in response to Congressional consideration of legislation that would severely limit tax exemption of bonds issued after April 24 for the purpose of subsidizing single-family house purchases.^{1/}

Yields on long-term tax-exempt securities have risen along with taxable bond yields since the July FOMC meeting. The Bond Buyer index on August 2 was 6.14 percent, up 6 basis points. Because the yields on taxable bonds rose relatively more over this period, the ratio of tax-exempt to

^{1/} The bill reported out recently by the House Ways and Means Committee would permit the marketing of the \$3.2 billion of such issues that had been in process when the bill was first introduced, and the Senate has passed a resolution concurring in these "transition rules". Most of the single-family revenue bonds issued in recent weeks have been offerings that were "in the pipeline" in late April, and consequently would be allowed under the transition rules.

OFFERINGS OF MARKETABLE GOVERNMENT SECURITIES
(Monthly totals or monthly averages, in millions of dollars)

	1978	1979					
	Year	QI	QII	June	July ^{e/}	Aug. ^{f/}	Sept. ^{f/}
		<u>Seasonally adjusted</u>					
State and local government securities, gross offerings							
Total	5,851	4,848	4,952	4,950	4,800	4,850	5,250
Long-term	4,042	3,137	3,254	3,800	3,300	3,500	4,300
Short-term	1,809	1,711	1,698	1,150	1,500	1,350	950
U.S. Government securities, net offerings							
U.S. Treasury	2,337	1,732	4,824	-1,264	2,535	2,055	-2,880
Sponsored agencies	1,930	2,608	1,779	2,604	1,860	2,080	818
		<u>Not seasonally adjusted</u>					
State and local government securities, gross offerings							
Total	5,851	4,761	5,743	5,946	4,400	4,600	4,900
Long-term	4,042	3,266	3,514	4,400	3,200	3,400	3,700
Short-term	1,809	1,495	2,229	1,546	1,200	1,200	1,200
U.S. Government securities, net offerings							
U.S. Treasury	2,337	2,998	933	-4,709	950	5,500	-3,300
Sponsored agencies	1,930	2,120	2,009	2,817	2,194	2,514	1,506

e/ Estimated.
f/ Forecasted.

MUNICIPAL BOND FUND SALES
(Monthly totals or monthly averages, in millions of dollars)

	Tax-exempt mutual funds ^{1/}			Unit investment trusts
	Total sales	Redemptions	Net sales	
1977	172	40	132	185
1978	151	88	63	185
1979				
January	140	72	68	203
February	125	46	79	199
March	122	55	67	248
April	198	99	99	197
May	186	81	105	348
June	212	76	136	304
July	n.a.	n.a.	n.a.	273

^{1/} Source: Investment Company Institute

^{2/} Source: John Nuveen & Co.

taxable yields fell to a 1979 low. A rising demand by individuals for tax-exempt bonds is evidenced by a pickup in sales of unit investment trusts (UITs) and sales of mutual funds investing in tax-exempt securities. Flows into UITs averaged over \$300 million per month in May, June, and July, \$100 million more than the average of the previous four months. Average monthly sales of tax-exempt mutual funds were about \$50 million higher in May and June than during the first four months of 1979 (see table on page III-12).

Treasury and Sponsored Agency Securities Markets

After their recent increases, interest rates on Treasury securities currently lie between the levels prevailing in early May--when most Treasury rates were at or near their cyclical peaks--and the levels prevailing in late June or early July--when most rates were at or close to their 1979 lows. There is evidence, however, that the market generally expects short-term interest rates to decline in the near future. For example, the spread between the very short-term Federal funds rate and other short-term interest rates has continued to widen during recent weeks, and prices in the futures market for three-month Treasury bills indicate an expectation of substantial rate declines by early 1980.

In its August mid-quarter refunding operation, the Treasury raised a total of \$2.4 billion of new cash, offering \$7.3 billion of gross new issues to the public in a standard package consisting of \$2.8 billion of three-year notes, \$2.5 billion of reopened 7-1/2 year notes, and \$2.0 billion of reopened 29-3/4 year bonds. As a result of this operation, together with \$3.5 billion of new cash raised through regular cycle notes and bonds in early July, the Treasury has accomplished about \$6 billion of marketable net new

borrowing so far in the third quarter. In addition, the Treasury has obtained \$1.3 billion of new cash since mid-year through the sale of nonmarketable issues, primarily special issues to foreign official accounts.

Federally sponsored credit agencies are estimated to have raised \$1.9 billion of new cash in July, on a seasonally adjusted offerings basis, about the same as the average monthly borrowing rate in the second quarter. The greater part of the July total--about \$1.2 billion--was raised by the Farm Credit Banks, owing largely to continued strength in agricultural real estate loans made by Federal Land Banks. Among the housing credit agencies, FHLs borrowed about \$700 million, seasonally adjusted, in July, while FIMA ran off a small amount of notes, using its liquid assets to finance mortgage purchases.

Mortgage Markets

Mortgage lending may have eased in July following a strong second quarter rebound. Bank real estate loans grew more slowly, and mortgage commitments outstanding at S&Ls edged down further in June. Moreover, field reports suggest that there has been some slackening in loan demand in response to the rise in mortgage interest rates this year and to general economic uncertainty. Even though deposit growth at thrifts slowed in July, and the percentage of sampled S&Ls reporting that funds were in short supply edged downward only slightly, and interest rates on commitments to make new conventional home loans fell slightly after peaking early in the month. Changes in mortgage yields in national secondary markets have been mixed since the last FOMC meeting, with yields in FIMA forward commitment auctions declining a bit but yields on GMA-guaranteed securities increasing somewhat. The wide spread still prevailing between home mortgage rates and corporate

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
In billions of dollars, seasonally adjusted annual rates

	1978				1979	
	Q1	Q2	Q3	Q4	Q1	Q2 ^{e/}
By type of debt						
Total	133	146	154	162	151	158
Residential	105	114	116	126	114	120
Nonresidential	28	32	38	36	37	38
By type of holder						
Commercial banks	27	36	39	37	28	35
Savings and loans	53	52	48	52	43	50
Mutual savings banks	7	6	7	6	6	5
Life insurance companies	6	9	10	12	10	11
FNMA and GNMA	5	12	9	9	11	8
GNMA pools	6	7	11	14	14	14
FHLMC and FHLMC pools	3	4	5	8	5	4
Other ^{1/}	26	20	25	24	34	31

^{1/} Includes, among other institutions, mortgage pools backing securities issued and guaranteed by the Farmers Home Administration, pools of conventional home loans backing issues of privately issued pass-through securities, mortgage companies, pension and retirement funds, REITS, and state and local credit agencies.

^{e/} Estimated.

III-16
INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Conventional home mortgages				
Period	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	^{1/} Spread (basis points)	^{2/} Percent of S&Ls with mortgage funds in short supply
1979--High	11.13	—	+172	80
Low	10.38	—	+67	54
1979--Mar.	10.43	+ 2	+81	57
Apr.	10.50	+ 7	+76	62
May	10.69	+19	+83	75
June 1	10.90	+15	+118	80
8	11.03	+13	+145	78
15	11.05	+ 2	+159	79
22	11.10	+ 5	+162	78
29	11.10	0	+165	77
July 6	11.13	+ 3	+172	78
13	11.08	- 5	+158	74
20	11.08	0	+150	74
27	11.08	0	+149	74
Aug. 3	11.08	0	+151	76

^{1/} Average mortgage rate minus average yield on recently offered Aaa utility bonds.

^{2/} Percent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments				Yields on GNMA- guaranteed mortgage-backed securities for immediate ^{2/} delivery ^{2/}	
	Conventional		Government-underwritten			
	Amount (\$ millions)		Yield to FNMA ^{1/}	Amount (\$ millions)		Yield to FNMA ^{1/}
	Offered	Accepted		Offered	Accepted	
1979--High	253	158	11.60	735	308	10.88
Low	36	28	10.92	37	19	10.42
1979--June 11	237	123	11.54	160	66	10.79
18						9.76
25	120	72	11.60	60	34	10.74
July 2						9.72
9	36	28	11.54	37	19	10.66
16						9.69
23	58	42	11.51	97	50	10.65
30						9.78
Aug. 6	107	89	11.50	56	28	10.64
						9.82

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

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

bond yields appears to be attracting alternative investors and providing a continued incentive for the creation of mortgage-related securities.

Given current levels of mortgage interest rates, usury ceilings continue to constrain the supply of conventional home mortgage funds in a number of states.^{1/} Because national banks may charge up to 1 percent above the Federal Reserve discount rate, regardless of any state usury ceiling, the recent increase in the discount rate to 10 percent should enhance the incentive for national banks to finance conventional home mortgages in those states where rate ceilings are binding.

Consumer Credit

Consumer installment credit growth decelerated to a 12 percent annual rate in June, which kept the average second-quarter growth rate about the same as in the first--15 percent, 4 percentage points below last year's average rate of expansion. Monthly figures indicate that, on balance, growth in automobile credit outstanding has been slowing in recent months as car sales have fallen off. Non-automotive credit also weakened in June after strong expansion in April and May.

Recent evidence on the ability of households to meet their debt obligations is mixed. Although not unusually high by historical standards, personal bankruptcies in the second quarter were about 11 percent higher than in the first quarter, and about 20 percent higher than in the second quarter of last year. Mortgage delinquency rates at S&Ls remained near a seven-year low, however.

^{1/} New Jersey, New York, and Texas are among the larger states with the most restrictive ceilings. The ceiling rate in Texas will be tied to market rates (with a 12 percent cap) before the end of August. The current ceiling rate in New York, however, is only 10 percent and an additional quarter-point increase will not be allowed until November.

CONSUMER INSTALLMENT CREDIT ^{1/}

	1976	1977	1978	1979			
				QI	QII	May	June
Total							
Change in outstandings							
Billions of dollars	21.7	35.3	44.8	40.4	42.6	44.8	34.6
Percent	12.6	18.2	19.4	14.8	15.1	15.7	11.9
Bank share (percent)	49.8	52.9	53.1	43.8	48.9	44.5	51.9
Extensions							
Billions of dollars	211.0	254.1	298.3	313.8	326.2	336.3	319.7
Bank share (percent)	46.1	46.4	47.8	47.2	48.1	48.2	48.0
Liquidations							
Billions of dollars	189.4	218.8	253.5	273.4	283.6	291.5	285.2
Ratio to disposable income	16.0	16.8	17.5	17.5	17.7	18.2	17.7
Automobile Credit							
Change in outstandings							
Billions of dollars	10.5	15.2	19.6	18.9	14.8	14.7	13.8
Percent	18.3	22.5	23.6	18.5	13.8	13.5	12.6
Extensions							
Billions of dollars	63.7	75.6	89.0	92.4	94.2	98.7	89.6

^{1/} Quarterly and monthly dollar figures and related percent changes are seasonally adjusted annual rates.

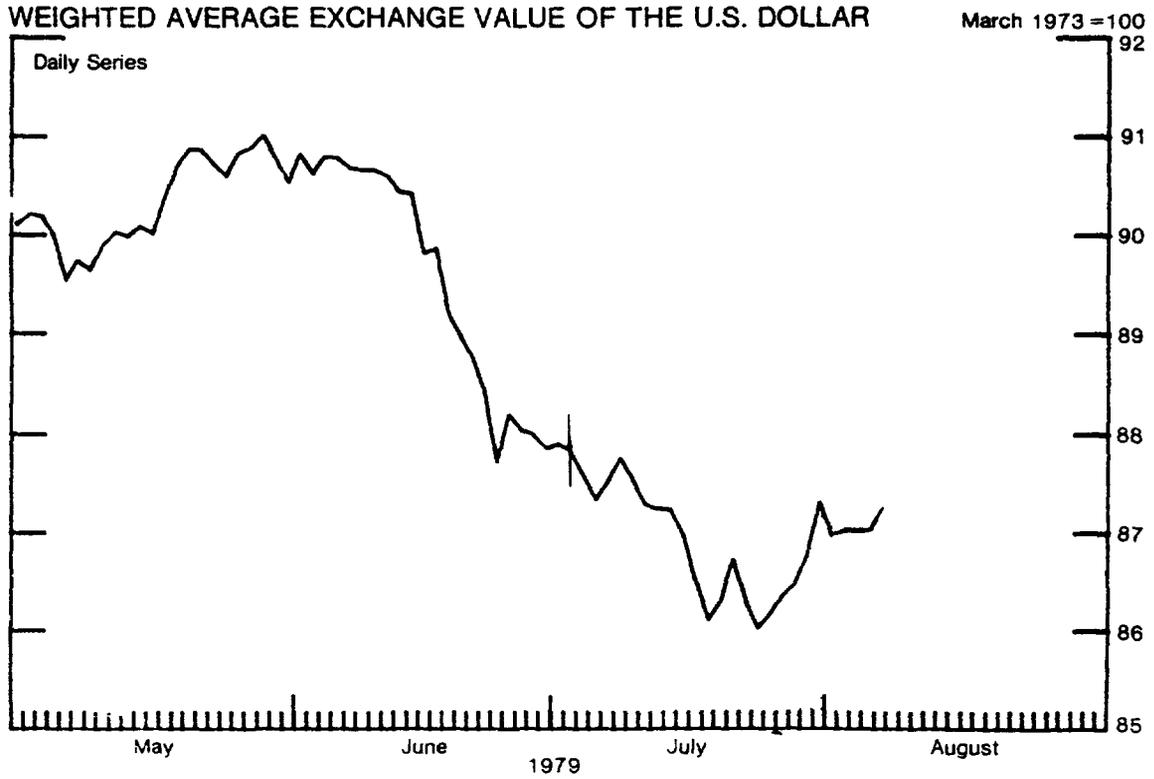
IV - 1
INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The dollar continued under heavy selling pressure during the first three weeks of July but recovered late in the month and has remained steady so far in August. Over the five week period since the last green book the dollar's average exchange value has shown a net decline of about 2/3 per cent.

The dollar's fluctuations over this period continued to be heavily influenced by market perceptions of U.S. economic policy. Strong downward pressure on the dollar had developed at mid-June when a sharp acceleration in the growth of U.S. monetary aggregates generated market speculation that the Federal Reserve might not resist an easing of financial conditions as U.S. economic activity slowed. Moreover, U.S. monetary policy was viewed as diverging from that abroad, where monetary conditions in several major countries appeared to be tightening (as discussed below in the section on foreign economic developments). The announcement of sharply higher oil prices at the OPEC ministers' meeting in late June shifted the focus of attention to U.S. energy policy, and the cancellation of a scheduled energy message by the President followed by news reports that the administration did not plan to decontrol domestic oil prices, triggered further selling pressure on the dollar in early July. Downward pressure on the dollar intensified at mid-July when the announcement of cabinet resignations heightened uncertainty over U.S. economic policies. As shown in the top panel of Chart 1, between mid-June and late July the average exchange value of the dollar fell by over 5 per cent.

CHART 1

STRICTLY CONFIDENTIAL (FR)
Class II - FOMC
8/8/79



. The reversal of the dollar's decline in late July followed the naming of new cabinet members and a new Federal Reserve Chairman, and statements by U.S. officials on the necessity of reducing inflation and stabilizing the dollar. Interest rates and discount rates were raised both in the United States and in several foreign countries in July. Announcements of discount rate increases by the Federal Reserve, Germany, Japan, Canada and the Netherlands appear to have had little net effect on the dollar's exchange value.

Both the rise and subsequent decline of foreign currencies against the dollar over the past five weeks was led by the British pound. Sterling appreciated by nearly 6 per cent against the dollar in early July, influenced by Britain's increasingly valuable North Sea oil holdings and the restrictive economic policies announced by the new U.K. government. However, later announcements of Nigeria's intention to nationalize U.K. oil holdings and an acceleration of U.K. inflation in July triggered a sharp drop in the pound nearly equal in magnitude to the earlier rise.

.
Operations by the Desk since the beginning of July resulted in net intervention support for the dollar of \$2.3 billion. This intervention took the form almost exclusively of net sales of German marks,

Total outstanding System mark swap drawings rose to just under \$2 billion equivalent. A swap-financed sale of \$32 million equivalent of Swiss francs by the System at mid-July was subsequently fully reversed.

U.S. International Transactions. In June the U.S. merchandise trade deficit (international accounts basis) was \$32.2 billion at an annual rate, slightly larger than the revised May deficit. For the second quarter as a whole, the deficit was at a rate of \$30.6 billion, about \$6 billion larger than in the first quarter. See the chart on the following page.

In the second quarter, exports increased by about 3 percent with virtually all of the increase in nonagricultural shipments (estimated to be about half in price and half in volume). Industrial supplies (particularly nonferrous metals and chemicals) and machinery showed the largest increases.

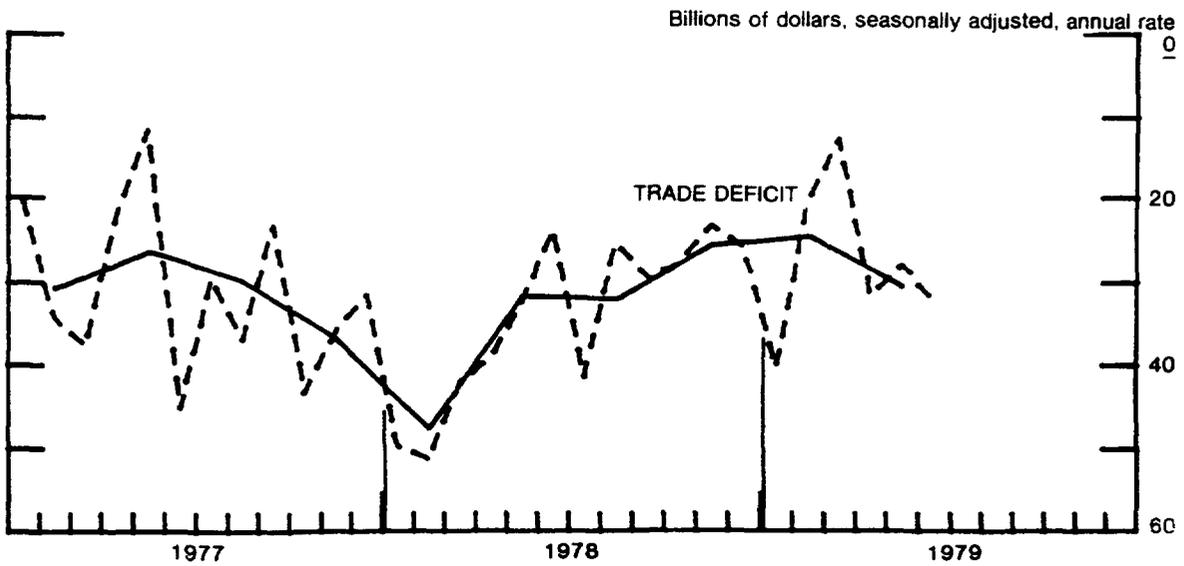
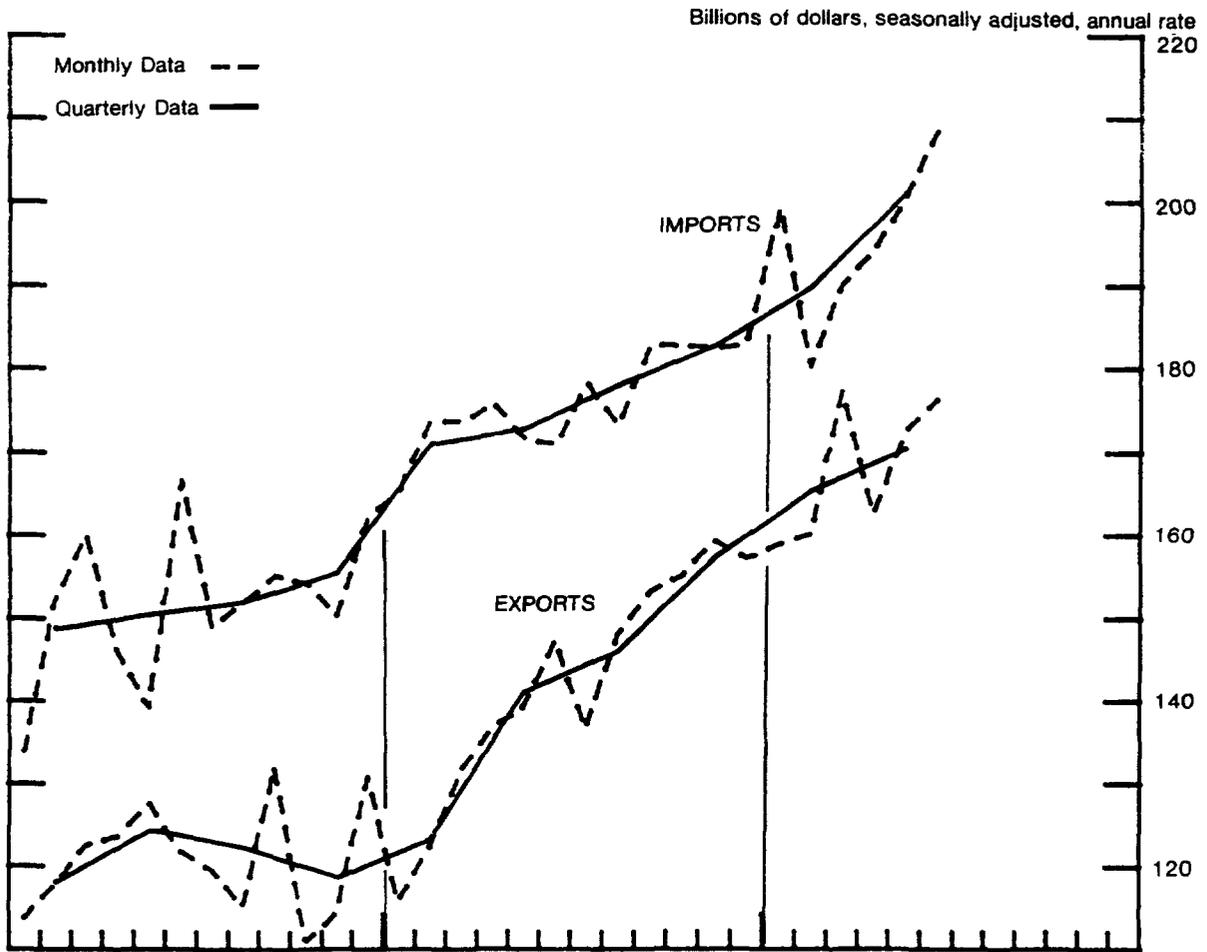
U.S. Merchandise Trade, International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)

	Year	1 9 7 8		1 9 7 9			
		3Q	4Q	1Q	2Q	May*	June*
<u>EXPORTS</u>	<u>141.9</u>	<u>146.0</u>	<u>157.3</u>	<u>165.4</u>	<u>171.0</u>	<u>172.5</u>	<u>178.1</u>
Agric.	29.9	31.7	31.3	30.6	30.7	28.2	32.9
Nonagric.	112.0	114.2	126.0	134.8	140.3	144.3	145.2
<u>IMPORTS</u>	<u>176.1</u>	<u>178.0</u>	<u>182.7</u>	<u>189.8</u>	<u>201.6</u>	<u>200.4</u>	<u>210.3</u>
Petroleum	42.3	43.5	43.2	46.6	51.6	49.6	55.0
Nonpetroleum	133.8	134.5	139.5	143.2	150.0	150.8	155.3
<u>BALANCE</u>	<u>-34.2</u>	<u>-32.0</u>	<u>-25.5</u>	<u>-24.4</u>	<u>-30.6</u>	<u>-27.9</u>	<u>-32.2</u>

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

*/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.

U.S. Merchandise Trade International Accounts Basis



Civilian aircraft exports, which were very strong in the first quarter, declined somewhat in the second. Agricultural exports were about the same as in the first quarter -- increases in grain and tobacco offset a decline in soybeans. The recently announced increase in Soviet wheat purchases is expected to result in only a small increase in U.S. agricultural exports above the rate previously anticipated by the staff.

Imports in the second quarter were at a 6 percent higher rate than in the first quarter. About half of the increase was in oil imports; oil imports totaled nearly \$52 billion (annual rate) in the second quarter, \$5 billion (annual rate) higher than in the first quarter. While the volume of oil imported decreased to 8.7 million barrels per day (MMB/d) from the first quarter rate of 9.3 MMB/d, the price of imported oil increased sharply -- from an average of \$13.95 per barrel in the first quarter to an average of \$16.31 per barrel in the second quarter. By June the price of U.S. oil imports was 32 percent higher than in December 1978. The increase in non-oil imports was spread over various commodity categories with the largest increases in industrial supplies and in the value of foreign cars.

The level of U.S. oil imports in recent months was affected by the rate of U.S. crude oil production, which was lower than anticipated in the first four months of 1979. U.S. production was expected to resume its previous decline (starting in 1973) as Alaskan production leveled off this year. However, the unexpectedly large drop-off in production was comparable in magnitude to the loss of U.S. access to Iranian crude oil during this period. Possible explanations for the production shortfall

RESTRICTED

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

	1977	1978	1978				1979		
	Year	Year	Q3	Q4	Q1	Q2	Apr.	May	June
1. <u>Trade balance</u> ^{1/}	-30,873	-34,187	-8,012	-6,369	-6,098	-7,639	-2,629	-2,325	-2,685
2. Merchandise exports	120,816	141,884	36,491	39,315	41,350	42,760	13,546	14,371	14,843
3. Merchandise imports	-151,689	-176,071	-44,503	-45,684	-47,448	-50,399	-16,175	-16,696	-17,528
4. <u>Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)</u>	-3,909	-13,719	3,562	-13,568	-13,753	5,463	2,004	5,850	-2,391
Through interbank transactions with									
a) Own offices in foreign countries	-2,718	5,616	7,173	-2,880	14,452	7,599	-2,271	5,464	4,406
b) Unaffiliated banking offices in foreign countries	-2,204	-11,400	-1,425	-6,628	742	-1,165	4,122	454	-5,741
Through nonbank transactions									
a) Claims on nonbanks in foreign countries (increase, -)	-424	-9,435	-2,642	-4,836	-984	-1,750	-135	-727	-888
b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,501	456	776	-458	778	287	659	-168
9. <u>Private securities transactions, net (excl. U.S. Treas. Oblig.)</u>	-3,068	-783	-114	-108	-564	-94	217	242	-553
10. Foreign net purchases of U.S. corp. bonds	1,112	1,583	378	513	-11	258	177	*	82
11. Foreign net purchases of U.S. corp. stocks	1,326	1,124	-17	297	423	274	48	171	55
12. U.S. net purchases (-) of foreign securities	-5,506	-3,490	-475	-918	-976	-626	-8	71	-690
13. <u>Foreign net purchases of U.S. Treasury obligations</u> ^{2/}	534	2,264	-1,069	1,551	2,583	-239	1,245	1,194	290
14. <u>Change in foreign official reserve assets in U.S. (increase +)</u>	35,448	31,243	4,700	16,728	-8,696	-10,342	-6,156	-6,921	2,736
By Area									
15. G-10 countries and Switzerland	29,414	30,200	5,151	15,570	-7,191	-11,499	-1,408	-6,922	3,287
16. OPEC	5,743	-1,290	-1,475	956	-1,972	134	1,159	71	-1,095
17. All other countries	291	2,333	1,024	202	467	1,023	-5,907	-70	544
By Type									
18. U.S. Treasury securities	30,266	23,836	3,167	13,348	-8,085	-12,846	-7,990	-7,913	3,057
19. Other ^{3/}	5,182	7,407	1,533	3,380	-611	2,504	1,834	992	-321
20. <u>Change in U.S. reserve assets (increase -)</u>	-237	662	14	200	-3,008 ^{4/}	446	255	-827	1,018
21. <u>All other transactions and statistical discrepancy</u>	2,105	14,520	919	1,566	2,030	12,405	5,064	5,175	2,165
MEMO:									
Current Account (bil. \$, seasonally adj., annual rates)	-15.3	-13.9	-12.9	-1.3	.6	n.a.	n.a.	n.a.	n.a.

^{1/} International accounts basis, seasonally adjusted.

^{2/} Includes U.S. Treasury notes publicly issued to private foreign residents.

^{3/} Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.

^{4/} Includes \$1,103 million of newly allocated SDR's.

include bad weather and a lock-in of U.S. crude oil in anticipation of now-scheduled complete decontrol of its price in 1981.

. In addition, the Treasury ran down its holdings of foreign currencies by about \$2.5 billion.

OPEC holdings of U.S. securities and bank liabilities fell by \$1.1 billion in June, and for the second quarter as a whole there was a net increase of \$100 million. In July (through the 25th) OPEC holdings at the FRBNY rose by about \$400 million. Recent price increases and tightening of credit terms by OPEC have not as yet shown up in increased investments in the United States.

Bank-reported private capital transactions resulted in a net private capital outflow of \$2.4 billion in June, contributing to a \$5.5 billion net inflow in the second quarter. Data for July show that head offices of member banks raised only about \$100 million of additional funds through their foreign branches compared with a monthly average increase of \$3 billion in the second quarter. This reduced rate of head office borrowing from own foreign branches may reflect a strengthening in credit activity at the foreign branches of U.S. banks.

Nonbank U.S. Residents' Deposits in the Caribbean Branches of

Member Banks. Responses have been received from 23 member banks to a special survey of offshore deposits held by nonbank U.S. residents on the last business day of each of the three most recent quarters. The survey was taken to determine whether part of the recent strong growth in the deposits of U.S. residents at the Caribbean branches of member banks has been associated with an introduction on a larger scale of overnight offshore deposits into corporate cash management programs. The survey responses appear to confirm earlier reports to this effect.

The responses to the survey reveal that U.S. residents hold a sizable amount of deposits subject to transfer in immediately available funds at the Caribbean branches of member banks. It is believed that such overnight deposits are regarded by U.S. corporations as close substitutes for domestic demand deposits and overnight RPs.

Dollar Deposits of Nonbank U.S. Residents at the
Caribbean Branches of 23 Member Banks 1/
(billions of dollars, end of day balances)

	<u>May 31, 1978</u>	<u>Dec. 29, 1978</u>	<u>March 30, 1979</u>	<u>June 29, 1979</u>
1. Total deposits payable in dollars to nonbank U.S. addressees	7.6	10.2	13.6	15.3
2. Amount of (1) reported to be available for transfer in immediately available funds during the next business day	n-a	2.0	2.8	2.9

1/ These 23 banks include all member banks with Caribbean branches whose deposits of U.S. residents (other than banks) were more than \$400 million at the end of February 1979 or had shown an increase of more than \$50 million from May 1978 through February 1979.

Foreign Economic Developments. In several major industrial countries, economic activity seems to be quite strong, with no evidence so far of an effect of higher oil prices on real demand. In Germany and Japan, especially, indicators suggest strong activity; industrial production, for example, increased about 10 percent (s.a.a.r.) in the second quarter in those two countries. In France, however, GDP growth (s.a.a.r.) declined to 1.7 percent in the first quarter of this year from 7 percent in the fourth quarter of 1978 and unemployment is high and increasing, while in Canada the strong first quarter growth was not sustained in the second quarter. In all major industrial countries, inflation continues to run at a high rate and has accelerated in Japan and the United Kingdom in recent months

In response partly to these developments, as well as to exchange-market pressures in some cases, most countries have announced measures to tighten monetary conditions. Japan, Germany, Italy, and Canada have raised official interest rates and/or tightened credit ceilings. In the United Kingdom's June 12 budget announcement, summarized in last month's green book, both monetary and fiscal policy were tightened. France has not announced any change in monetary policy, although short-term interest rates have risen recently.

In several key countries, however, the evolution of the monetary aggregates indicates that the tightening has been moderate. In Japan, the money stock (M-2, s.a.) has remained about 12 percent above last year's corresponding levels, and the Bank of Japan projects that M-2 growth will not slacken appreciably in the third quarter. In Germany and Canada, the latest data show the money stock near the upper boundary of the respective target ranges.

The current-account figures for Japan and Germany show marked reductions from last year's high surpluses. For the first half of 1979, Japan recorded a

deficit (s.a.) of \$360 million, compared with a surplus of \$6.2 billion in the second half of 1978, while the German surplus (n.s.a.) declined from \$3.8 billion in the first half of 1978 to \$0.3 billion in the first half of 1979.

Individual Country Notes. As the domestic economy in Japan continues to show signs of strength, concern among Japanese authorities has shifted increasingly to the control of inflation. In recent months, inflation has worsened as additional price pressures from domestic sources have exacerbated the effects of recent oil price increases. Wholesale prices in June were more than 7 percent above their level at the end of 1978 and in recent months have advanced at annual rates close to 15 percent. Consumer prices during the second quarter increased at an annual rate exceeding 10 percent, despite a brief deceleration in June. Industrial production increased by over 9-1/2 percent (s.a.a.r.) during the second quarter, and there are no indications yet that the strength in investment observed in the first quarter has been dissipated by the uncertainties from higher inflation.

The Japanese authorities have taken several steps to attempt to moderate the pace of inflation without undermining the expansion of the domestic economy. On July 24, the discount rate was raised by one percentage point to 5.25 percent, a step that followed by three months a 0.75 percentage point increase. At the end of June, the Bank of Japan also announced that the increase in lending limits for large city banks in the third quarter would be about a third less than in the corresponding quarter of 1978. As a result, this will be the third consecutive quarter of significantly smaller increases in city bank lending limits and the second straight quarter in which increases will be less than those reportedly requested by the banks. Despite these actions, the Bank of Japan has announced that it projects that M-2 will grow at a 12 percent rate (s.a.a.r.) in the third quarter -- roughly in line with increases recorded in recent quarters.

The Japanese current account (s.a.) realized a deficit of nearly \$200 million in June, and the cumulative current-account deficit for the first half of 1979 amounted to \$360 million. This figure may be compared with surpluses of \$10.4 billion and \$6.2 billion in the first and second halves, respectively, of 1978. (The first-half 1979 deficit includes about \$1.2 billion in emergency imports.) The recent rapid adjustment of the current account has been due in large part to increases in the prices of Japanese imports, including a rise in the price of imported oil of more than 35 percent since the fourth quarter of 1978. Price increases on the import side have been partly offset by renewed strength in export volume which expanded sharply in May.

The German rate of unemployment in July remained unchanged from its low May-June level of 3.7 percent (s.a.). Industrial production rose strongly in May and the provisional June figure shows a further increase. A leading source of strength has been the construction industry where capacity has become increasingly strained. New orders and demand for credit remained at high levels.

The cost of living index continued to rise briskly through July and has risen at an annual rate of nearly 8 percent this year. Import prices in June were 13 percent above their June 1978 level and have risen at an annual rate of 28 percent during the first half of this year.

Monetary growth may have begun to slow in the face of the restrictive posture of the Bundesbank, whose latest measures were increases in the discount and Lombard rates from 4 to 5 and from 5-1/2 to 6 percent respectively on July 13. Nevertheless, central bank money (CBM) has continued at the upper limit of the Bundesbank's target range (6-9 percent CBM growth between the fourth quarters of 1978 and 1979). During the second quarter of 1979, CBM was slightly more than 10 percent above the second quarter of 1978 level.

The trade surplus (n.s.a.) recorded a further decline in June and for the first half of 1979 was \$7.9 billion compared with \$9.4 billion in the first half of last year. The change in the current account was much more pronounced because of increased service and transfers deficits this year. The current-account surplus (n.s.a.) for the first half of this year was \$0.3 billion, compared with \$3.8 billion in the first half of 1978.

Economic activity in Italy continues to be strong, despite a sharp drop in industrial production in May, which was apparently related to strike activity. Survey data indicate that orders are high and inventory levels still declining. The deceleration of the monthly rates of consumer and wholesale price inflation in June to 1.0 and 0.9 percent respectively (their lowest rates this year) is likely to be transitory because seasonal factors were involved. Also, recently-signed labor contracts are likely to have a significant upward effect on labor costs.

Although the January-May trade deficit was \$700 million (customs basis, s.a.) compared to a \$200 million deficit for 1978 as a whole, it remains at a level consistent with a sizeable current-account surplus. The increasing trade deficit is largely the result of higher imports because of stronger activity, while most of the impact of higher oil prices has yet to be felt.

There has been some tightening of monetary policy over the course of the year in the face of increasing inflationary pressures. The credit ceilings of the Bank of Italy for the period April-September 1979 permit a 5.2 percent loan expansion, considerably less than the expected rate of inflation. The effectiveness of the credit ceilings, however, may be lessened by increased recourse to foreign borrowing, which is not subject to the credit limits.

From December until the end of June consumer price inflation in France has been fairly steady at an annual rate of 11.3 percent. Industrial wholesale

prices have increased at an annual rate of 17.6 percent over the past six months; however, in June the rate slowed to 10 percent.

Three-month money market interest rates in France are currently about 10-3/4 percent after averaging just under 7 percent in April and 8.6 percent in June. The increase in nominal interest rates may in part reflect higher inflation expectations, but it may also indicate tighter money-supply conditions. The Bank of France's M-2 growth target is still 11 percent for the year. From December to April the annual rate of growth was 15 percent, so that a substantial retardation will be required if the 11 percent figure is to be met.

In April a \$1-1/3 billion government investment stimulus was announced, mainly as an offset to oil price increases. Since then no new specific fiscal policy measures have been announced. However, the government has indicated that the 1980 budget would run a significant deficit. Measures to bolster construction food processing, and energy supplies and conservation are planned.

In the United Kingdom, anticipation of the sharp increase in value-added taxes announced in the June 12 budget led to a jump in consumer spending. In the second quarter of 1979 real consumer spending increased 14.5 percent (s.a.a.r.) according to preliminary data. The second-quarter figure for consumer spending is 7 percent above the figure for the second quarter of 1978. The increase in value-added taxes will begin to be reflected in the price data to be published in August. It is estimated that these increases in indirect taxes will increase the consumer price index by 3-4 percent at a time when U.K. inflation has already begun to accelerate.

In the year of June 1979, sterling-denominated M-3 rose 12 percent, with growth accelerating in the second half of the period. The monetary growth target

announced in the June budget calls for sterling M-3 growth of 7-11 percent (s.a.a.r.) during the 10-month period June 1979 to April 1980, which amounts to a target range of about 8-1/2 - 11-1/2 percent for the 12 months to April 1980. (The previous target for this period was 8 - 12 percent).

The growth rates (s.a.a.r.) of all monetary aggregates in Canada increased in June, continuing an upward trend begun three months ago. M-1 was 9.3 percent above its June 1978 level, thus approaching the upper limit of the Bank of Canada's target band of 6 to 10 percent. New monetary growth targets are expected to be announced within the next three months, with a repetition of last year's lowering of the target band (by 1 percentage point) likely. Thus, the increase in the Bank of Canada's bank rate from 11.25 to 11.75 percent effective July 23, in response to the recent increase in the U.S. discount rate, was also consistent with domestic monetary objectives.

The Swiss consumer price index rose 0.2 percent in July after a 1.4 percent increase in June, with the deceleration more than accounted for by variations in oil prices. Without the oil price increases, the government has estimated that the year over year rise in consumer prices in July would have been about 1 percent, instead of the actual 4.3 percent.

The Swiss National Bank (SNB) has adopted a moderately restrictive stance in 1979, but has repeatedly emphasized that it will limit the rise in interest rates and not attempt to offset the inflationary effect of the oil price increases. The SNB has recently intervened to keep capital market interest rates from rising, and money market rates leveled off in June and July.

The National Bank of Belgium continued to tighten monetary policy to defend the Belgian franc, and the sharp rise in short-term interest rates since April has begun to spill over into long-term rates. Interest rates in the Netherlands have also risen although to a lesser extent.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

	1976	1977	1978	Latest 3 Months from:						Latest Month		
				1978				1979			Previous 3 Months (at Ann. Rate)	Year Ago
				Q1	Q2	Q3	Q4	Q1	Q2			
Canada: CPI	7.5	8.0	8.9	1.8	2.4	2.5	1.6	2.3	2.6	10.9	9.3	June
WPI	5.1	7.7	9.4	3.0	2.8	2.1	3.3	3.9	n.a.	18.6	13.3	May
France: CPI	9.6	9.5	9.2	1.6	2.9	2.7	2.1	2.2	2.8	11.8	10.1	June
WPI	7.4	5.6	4.3	1.4	1.9	1.9	2.9	4.4	3.7	15.7	13.6	June
Germany: CPI	4.6	3.9	2.6	1.3	0.9	0.0	0.1	2.1	1.6	6.4	4.1	July
WPI	5.8	1.8	-0.3	1.0	0.3	-0.6	0.0	3.5	n.a.	17.5	5.6	May
Italy: CPI	16.8	18.4	12.1	2.6	3.0	2.4	3.0	3.8	3.8	15.9	13.7	June
WPI	22.9	17.4	8.4	2.1	2.3	1.8	2.2	4.4	4.6	19.7	13.7	June
Japan: CPI	9.7	8.3	4.3	0.9	2.0	0.8	0.2	-0.2	2.7	11.2	3.5	June
WPI	5.0	1.9	-2.5	-0.5	-0.3	-1.7	-0.6	1.9	4.1	17.4	3.6	June
United Kingdom: CPI	16.6	15.8	8.3	1.7	2.7	1.7	1.7	3.1	3.7	15.5	10.6	June
WPI	17.3	19.8	9.1	2.3	1.8	1.9	1.7	2.7	3.9	19.6	11.9	July
United States: CPI	5.7	6.5	7.6	1.7	2.6	2.4	2.0	2.5	3.4	14.4	10.7	June
WPI	4.6	6.1	7.8	2.4	3.0	1.5	2.3	3.6	3.4	14.5	11.3	June

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period, seasonally adjusted)

	1976	1977	1978	1978			1979		1979					
				Q2	Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	Jun	
Canada: GNP	5.4	2.4	3.4	0.9	1.1	0.7	1.7			*	*	*	*	
IP	5.1	4.0	5.3	1.3	1.8	2.6	1.4			-0.7	0.9	-1.3	0.6	
France: GDP	4.9	3.0	3.4	1.7	0.3	1.8	0.4			*	*	*	*	
IP	9.4	1.7	2.2	2.4	-1.0	2.1	-0.3			0.0	0.0	0.0	0.8	
Germany: GNP	5.2	2.6	3.4	2.1	0.7	0.9	0.0			*	*	*	*	*
IP	7.9	2.7	2.0	-0.6	3.2	0.8	0.3	2.8		-0.8	2.5	0.0	1.6	0.8
Italy: GDP	5.9	2.0	2.6	0.4	0.6	2.9	1.0			*	*	*	*	
IP	12.4	1.1	1.9	-2.2	1.0	6.1	1.1			4.9	-2.4	0.7	-3.1	
Japan: GNP	6.4	5.4	5.6	1.0	0.8	1.7	1.8			*	*	*	*	*
IP	11.1	4.2	6.2	1.9	1.3	2.2	1.8	2.4		1.4	-0.5	0.8	2.1	0.2
United Kingdom: GDP	3.0	1.9	3.1	2.3	0.8	-0.1	-1.5			*	*	*	*	
IP	1.9	3.8	3.7	3.5	0.7	-1.5	-0.7			7.5	0.8	0.8	0.6	
United States: GNP	5.7	5.5	4.4	2.0	0.9	1.4	0.3	-0.8		*	*	*	*	*
IP	10.1	5.6	5.8	3.1	2.1	1.9	1.2	-0.3		0.2	0.7	-1.5	1.2	-0.3

* GNP data are not published on monthly basis.

Trade and Current-Account Balances of Major Industrial Countries^{a/}
(billions of U.S. dollars; seasonally adjusted)

	1977	1978	1978				1979		1979		
			Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Canada: Trade	2.7	3.0	1.2	0.6	0.6	0.6	0.4	0.5	0.1	0.2	0.2
Current Account	-3.9	-4.6	-0.9	-1.1	-1.2	-1.5	-1.4	n.a.	*	*	*
France: Trade ^{b/}	-2.2	0.6	0.0	0.2	0.2	0.1	0.3	-0.4	0.1	-0.3	-0.3
Current Account ^{b/}	-3.3	3.8	0.1	1.4	1.2	1.3	0.8	n.a.	*	*	*
Germany: Trade	16.5	20.6	4.6	4.9	5.4	5.6	4.3	n.a.	1.8	0.9	n.a.
Current Account ^{c/}	4.3	8.9	2.0	1.8	0.2	4.9	1.4	-1.1	0.5	-0.2	-1.5
Italy: Trade	-2.8	-0.2	-0.2	0.3	-0.8	0.5	-0.4	n.a.	0.4	-0.6	n.a.
Current Account ^{c/}	2.3	6.3	0.3	1.8	2.6	1.6 ^e	n.a.	n.a.	*	*	*
Japan: Trade	17.4	24.7	7.4	6.8	6.7	3.9	2.7	1.9	0.3	0.8	0.8
Current Account	10.9	16.5	5.5	4.8	4.5	1.7	0.3	-0.7	-0.5	0.0	-0.2
United Kingdom: Trade	-3.0	-2.2	-1.1	-0.3	-0.7	-0.1	-2.4	-1.2	-0.7	-0.4	-0.1
Current Account	0.7	0.9	-0.7	0.4	0.3	0.9	-1.6	-0.5	-0.4	-0.2	0.1
United States: Trade	-30.9	-34.2	-11.9	-7.9	-8.0	-6.4	-6.1	-7.6	-2.6	-2.3	-2.7
Current Account	-14.1	-13.9	-6.9	-3.4	-3.2	-0.3	0.2	n.a.	*	*	*

^{a/} The current account includes goods, services, and private and official transfers.

^{b/} French annual data is not seasonally adjusted.

^{c/} Not seasonally adjusted.

^e Estimate.

* Comparable monthly current account data are not published.

Growth of Money Stock in Selected Industrial Countries

	<u>1979</u>						<u>Percentage change in latest 3 months from same period year earlier</u>
	<u>(percentage change from previous month, seasonally adjusted monthly rates)</u>						
	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	
Canada(M ₁)	-1.9	1.5	-1.8	1.8	2.2	1.6	8.6
France(M ₂)	1.2	1.6	1.7	0.5	n.a.	n.a.	13.3
Germany(CBM) ^{1/}	0.8	0.3	1.3	0.3	0.7	0.1	10.0
Japan(M ₂)	-0.1	1.0	1.8	1.9	-0.6	n.a.	12.5
Switzerland(M ₁) ^{2/}	-0.1	-0.2	1.7	-3.8	n.a.	n.a.	15.1
United Kingdom(£M ₃)	2.1	1.1	-0.8	1.5	1.3	1.1	11.8
United States(M ₁)	-0.4	-0.3	0.1	1.5	0.1	1.2	4.4
(M ₂)	-0.1	0.2	0.3	1.2	0.5	1.2	7.1

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^{1/} Central Bank Money, equal to currency plus non-currency components of M₃ weighted by their reserve requirements as of January 1974.

^{2/} Not seasonally adjusted.

APPENDIX A*
1979 JULY REVISION OF NATIONAL INCOME AND PRODUCT ACCOUNTS

The annual revision to the National Income and Product Accounts (NIPA) left the overall contour of economic activity in the 1976-78 period essentially unchanged. ^{1/} The recovery which began in 1975 is now estimated to have been a little stronger than originally thought. In addition, reflecting the normal re-assessment of seasonal factors, the quarterly pattern of changes in real gross national product is a bit smoother than originally estimated and the slight dip in 1978 Q1 now has been eliminated (see Table I). However, the composition of output growth is somewhat different than earlier estimated, as output gains over the period now appear to be even more concentrated in the household sector (see Table II). Additionally, on the income side of the NIPA, the revised estimates now indicate somewhat higher flows of business and personal incomes and slightly larger total government deficits; moreover, the estimates also imply a shift among the components of gross saving with an upward revision to business saving and a downward revision to personal saving.

Summary

Gross national product (GNP) in real terms is now estimated to have risen somewhat more rapidly over the last three years. The upward revision to real growth was smallest in 1976 and equal to about .4 percentage point in both 1977 and 1978. The quarterly changes in real GNP were revised upward in eight of the thirteen quarters covered by the revision with the largest single adjustment being 2.0 percentage points in 1978 Q1. The upward revisions to real GNP resulted mainly from stronger readings of consumption, net exports and inventory accumulation; in contrast, spending for business fixed investment and government purchases was less than previously published. In current dollar terms, the level of GNP was increased by \$2 billion in 1976, by \$12 billion in 1977 and by a total of \$20 billion in 1978. GNP prices were revised only fractionally over this three year period.

Highlights of this revision by sector of activity are as follows:

- 1) Consumer spending was increased by sizable amounts in both 1977 and 1978 and by the end of the revision period personal consumption was estimated to be \$12 billion higher than earlier indicated. The personal saving rate was reduced in both years and in 1978 was almost 1/2 percentage point lower than the earlier indication.

^{1/} This revision covers the period 1976 Q1 through 1979 Q1. New source data which were not available at the time of the earlier estimates are incorporated and seasonal factors are updated in the annual July revision.

* Prepared by James D. August, Economist, National Income Section, Division of Research and Statistics.

- 2) The rate of inventory accumulation was revised upward by somewhat over \$6 billion in both 1977 and 1978; however, also reflecting upward revisions in sales the constant dollar inventory/final sales ratios were only little affected by the revision.
- 3) Purchases of goods and services by state and local governments are now estimated to have been somewhat greater in 1976 and almost \$3 billion more in both 1977 and 1978. Federal purchases were revised downward a bit in all three years.
- 4) Business fixed investment was revised very little in all three years with changes occurring mainly in the structures component of investment.
- 5) Net exports were revised upward in all three years with upward revisions to exports more than offsetting downward or lesser import adjustments.
- 6) On the income side of the accounts, there were upward revisions to personal income in all three years -- reaching \$9-1/2 billion in 1978. Corporate profits were revised upward sharply in both 1977 and 1978.

Consumer Sector Activity

Personal consumption expenditures (PCE) were revised down a bit in 1976 but upward by significant amounts in both 1977 and 1978. The slight downward revision in 1976 was concentrated in expenditures on services. In 1977 the upward revision was mainly in nondurable goods whereas in 1978, the upward adjustment was largely in nondurable goods and in services. By major expenditure category, there were large upward revisions in all three years in consumer purchases of food; also, in 1977 and 1978 expenditures on housing services and clothing and shoes were raised substantially over earlier estimates. Finally, purchases of autos and "other" (nonfurniture) durable goods were revised up sharply in 1978 as was spending for "other" services (which includes medical care, personal business, recreation and education).

Personal income was revised upward slightly in 1976 and 1977 and by a larger amount (\$9-1/2 billion) in 1978. (See Table III.) The large revision for 1978 was centered in proprietors' income (mainly farm) and rental and personal interest income; in contrast, there were downward revisions in transfer payments and dividends. Because the upward revision in PCE for 1978 was somewhat greater than that in disposable income the personal saving rate was reduced by .4 percentage point to 4.9 percent for the year as a whole. This rate is the lowest, on an annual basis, since 1963 when it was 4.7 percent.

Business Sector Activity (See Table IV.)

Business spending on fixed capital goods was revised downward by relatively small amounts (\$1 to \$1-1/2 billion) in 1977 and 1978, respectively. In 1977 this scaling down was all in structures while in 1978 there was also a slight reduction in producers' durable equipment purchases.

The revisions in nonfarm business inventory investment indicate somewhat more accumulation in 1977 (+\$5.7 billion) and 1978 (+\$4.6 billion) than indicated previously. Much of this upward revision appears to have been in the manufacturing sector and appears to reflect incorporation of data from the 1977 economic censuses. To a lesser extent this upward revision in inventory investment also reflects downward revisions in the inventory valuation adjustment. The quarterly pattern of changes in this sector is essentially the same as earlier estimated except in 1978 QIV and 1979 QI. Movements in the constant dollar nonfarm inventories/final sales ratio were little affected, and since final sales were also revised upward, the level of the ratio was raised only slightly; at .278 the 1979 QII level is still well below the 1974 QIV record high of .300.

Corporate profits were revised downward slightly in 1976 and upward by substantial amounts in 1977 and 1978. (See Table III.) Economic profits (those with inventory valuation and capital consumption adjustments) are now reported as fractionally lower in 1976 and \$5.8 billion and \$8.2 billion higher in 1977 and 1978, respectively. The 1977 and 1978 revisions were split between before tax (book) profits and the capital consumption adjustment (the accounting adjustment that reconciles economic and tax depreciation of capital assets). Corporate cash flow -- as measured by undistributed corporate profits plus capital consumption allowances (with both the inventory valuation and capital consumption adjustments) -- was revised upward in all three years; given the slight downward revisions in capital outlays over this period, this implies a somewhat smaller financing gap than previously indicated.

Other Private Activity

Residential construction outlays were little changed in 1976 and 1977 and were raised by \$1 billion in 1978. Net exports were a bit larger than earlier reported for all three years; exports were revised up and imports down in both 1976 and 1977. In 1978 the upward revision in imports was somewhat less than that in exports.

Government Activity

Federal expenditures were revised downward in all three years with the major downward revision coming in purchases of durable goods and services -- mainly defense in 1976 and 1977 and about half defense and half nondefense in 1978; the earlier estimate of net interest outlays was also reduced in 1978. Compensation of employees and grants-in-aid to state and local governments were revised up in 1978. Receipts, at the federal level, were revised upward in both 1977 and 1978 mainly reflecting the higher estimates for personal income and corporate profits. The federal deficit was revised downward by about \$2 billion in both 1977 and 1978.

State and local government expenditures were revised upward significantly in all three years with the bulk of the revisions being in employee compensation, structures and net interest. Receipts were also scaled up due to higher estimates of contributions for social insurance, corporate profits and personal incomes. The size of the state and local government surplus was reduced in all three years as downward revisions in the "operating funds" surplus more than offset increases in the estimate for social insurance funds balances.

On an NIPA basis, the net total balance for the government sector (federal plus state and local) shows a slightly larger deficit in 1976 and 1977; in 1978 the fiscal position of the sector as a whole is now shown to be essentially in balance. This results from slightly lower state and local surpluses as well as somewhat smaller federal deficits. (See Table V.)

Prices

This revision had very little impact on movements of aggregate prices as measured either by the implicit price deflator for GNP or by the gross domestic business product (GDBP) fixed-weighted price index. ^{2/} (See Table VI.) The major change in the quarterly pattern of the GNP deflator occurs in 1977 QIV and 1978 QI where the acceleration now is estimated to occur somewhat earlier; most other quarterly revisions were relatively small and left the basic pattern of inflation unchanged. The major revisions in the quarterly pattern of changes in the GDBP fixed-weighted index are the markedly smaller increases in all three second quarters -- an adjustment that appears primarily due to new seasonal factors.

Implications at Revised Seasonal Factors

Prior to this latest revision, real GNP growth over each of the three years of the 1976-78 period was characterized by relatively strong growth in the second and fourth quarters, and weaker growth in the first and third quarters. While actual seasonal factors are not yet available, it appears that this revision has smoothed considerably the quarterly pattern of activity in each of the three years. Indeed, on the revised basis there now appears to be no discernible intra-year biases to the quarterly pattern of real GNP growth.

^{2/} Typically, revisions to aggregate price measures are small since there is little new source data available after publication of monthly CPI & PPI price indices; such revisions thus tend more to reflect seasonal adjustment:

TABLE I

1979 JULY REVISIONS IN GNP
(Percent changes from preceding period; quarterly figures
at compound annual rates)

	GNP: Current Dollars			GNP: 1972 Dollars		
	Revised	Previously Published	Difference ^{1/}	Revised	Previously Published	Difference
1976:I	14.7	13.6	1.1	10.7	9.3	1.4
II	7.3	9.0	-1.7	2.6	4.0	-1.4
III	8.0	7.3	.7	3.1	2.7	.4
IV	9.8	8.2	1.6	3.5	2.3	1.2
1977:I	15.4	13.7	1.7	8.9	7.3	1.6
II	12.8	14.0	-1.2	4.8	5.9	-1.1
III	12.1	11.1	1.0	7.0	5.7	1.3
IV	8.7	8.9	-.2	2.2	3.2	-1.0
1978:I	8.4	7.1	1.3	1.9	-.1	2.0
II	19.8	20.6	-.8	8.3	8.7	-.4
III	10.9	9.6	1.3	3.5	2.6	.9
IV	14.8	15.6	-.8	5.6	6.9	-1.3
1979:I	10.6	9.8	.8	1.1	.8	.3
II	6.3	n.a.	n.a.	-3.3	n.a.	n.a.

ANNUAL CHANGES: Year over Year

1976	11.3	11.2	.1	5.9	5.7	.2
1977	11.6	11.0	.6	5.3	4.9	.4
1978	12.0	11.7	.3	4.4	4.0	.4

ANNUAL CHANGES: Fourth Quarter over Fourth Quarter

1976	9.9	9.5	.4	4.9	4.6	.3
1977	12.3	11.9	.4	5.7	5.5	.2
1978	13.4	13.1	.3	4.8	4.4	.4

^{1/} Difference equals revised estimate less previously published estimate.

TABLE II
 1979 JULY REVISIONS IN GNP AND MAJOR COMPONENTS
 (Billions of Current Dollars)

	1976	1977	1978
Cross National Product	2.1	12.3	20.0
Final Sales	2.2	6.0	13.6
Personal Consumption Expenditures	-0.3	3.5	10.7
Gross Private Domestic Investment	0.0	5.5	5.9
Nonresidential Fixed	0.3	-1.0	-1.5
Residential Fixed	-0.1	0.0	1.0
Change in Business Inventories	-0.2	6.3	6.3
Net Exports	0.6	1.2	1.7
Government Purchases of Goods & Services	1.8	2.2	1.7
Federal	-0.2	-0.7	-1.2
State & local	2.0	2.9	2.8

Revision is defined as revised level less previously published level.

TABLE III
 1979 JULY REVISIONS IN SELECTED INCOME MEASURES
 (Billions of Dollars)

	1976	1977	1978
Personal Income	.7	2.6	9.4
Wage & Salary Disb.	-.1	.4	2.4
Proprietors' Income with IVA & Cap. Cons. Adj.			
Farm	-.1	-.6	2.4
Nonfarm	.8	1.0	1.3
Rental Income with Cap. Cons. Adj.	-.4	2.2	2.5
Personal Interest Income	.7	.5	4.3
Dividends	-.4	-1.6	-2.1
Transfer Payments	-.1	-.4	-1.9
Corporate Profits with IVA & Cap. Cons. Adj.. (Book Profits)	-.2	5.8	8.2
Before Tax	.1	3.2	4.0
After Tax	.5	2.4	3.4
IVA	-.1	-.4	-.8
Cap. Cons. Adj.	-.1	2.9	5.0
Government Receipts	1.1	3.5	3.6
Personal Tax & Nontax	.6	1.4	2.8
Corp. Profits Tax Accruals	-.3	.9	.6
Indirect Bus. Tax & Nontax	.0	.1	-.2
Contrib. for Social Insurance	.9	2.1	-.1

Revision is defined as revised estimate less previously published estimate.
 Note: Details may not add to totals due to rounding.

TABLE IV

1979 JULY REVISIONS IN GROSS PRIVATE DOMESTIC INVESTMENT^{1/}
 (Billions of current dollars; revisions for quarters are based on SAAR levels)

	Nonresidential Fixed			Residential	Change in Nonfarm ^{2/} Business Inventories		
	Total	Structures	Producers' Durable Equip.		Revised	Previous	Revisor
1976:I	-.2	-.3	.1	.4	14.5	12.7	1.8
II	-.4	-.6	.2	-.3	17.9	18.8	-.9
III	-.1	.6	-.7	-.2	12.3	15.2	-2.9
IV	1.7	.4	1.4	-.3	3.6	2.2	1.4
1977:I	-.8	-1.2	.3	-.3	20.1	11.1	9.0
II	-1.1	-1.3	.3	.0	21.5	16.5	5.0
III	-.3	-1.2	.9	.7	25.6	22.0	3.6
IV	-1.7	-1.2	-.4	-.3	15.7	10.4	5.3
1978:I	-1.9	-1.6	-.3	.2	22.0	16.9	5.1
II	-1.3	-1.4	.1	2.4	25.3	22.1	3.2
III	-1.6	-1.2	-.3	1.2	18.5	14.6	3.9
IV	-1.0	-.7	-.2	.3	19.3	13.4	5.9
1979:I	-.6	-.9	.2	.1	18.8	16.5	2.3
1976	.3	.0	.3	-.1	12.1	12.2	-.1
1977	-1.0	-1.3	.3	.0	20.7	15.0	5.7
1978	-1.5	-1.3	-.2	1.0	21.3	16.7	4.6

^{1/} Revisions are defined as revised estimate less previously published estimate.

^{2/} Actual data.

TABLE V

1979 JULY REVISIONS OF GOVERNMENT SURPLUS/DEFICIT (NIPA BASIS)

(Billions of dollars at annual rates; quarterly data based on seasonally adjusted levels)

	Combined		Federal		State and local	
	Revised	Previous	Revised	Previous	Revised	Previous
1976:I	-45.3	-44.9	-57.5	-57.7	12.2	12.8
II	-32.1	-29.9	-47.3	-46.4	15.2	16.4
III	-33.7	-30.6	-52.2	-52.0	18.5	21.4
IV	-31.6	-27.1	-57.4	-59.1	25.9	32.0
1977:I	-13.1	-7.8	-37.2	-37.3	24.2	29.5
II	-16.6	-11.8	-40.9	-40.3	24.2	28.5
III	-23.5	-25.2	-53.6	-56.4	30.1	31.2
IV	-24.8	-29.6	-53.6	-58.6	28.8	29.0
1978:I	-19.2	-21.1	-49.4	-52.6	30.2	31.5
II	5.0	6.2	-24.6	-23.6	29.6	29.8
III	2.3	.6	-20.4	-22.8	22.7	23.4
IV	10.8	8.0	-16.3	-20.8	27.1	28.8
1979:I	15.8	10.6	-11.7	-16.9	27.6	27.5
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1976	-35.7	-33.2	-53.6	-53.8	17.9	20.7
1977	-19.5	-18.6	-46.3	-48.1	26.8	29.6
1978	-.3	-1.6	-27.7	-29.9	27.4	28.3

TABLE VI

1979 JULY REVISION OF GNP PRICES

(Percent changes from preceding period; quarterly figures at compound annual rate)

	GNP Implicit Price Deflator			Gross Domestic Business Product Fixed-Weighted Price Index		
	Revised	Previously	Difference ^{1/}	Revised	Previously	Difference ^{1/}
		Published			Published	
1976:QI	3.6	3.9	-.3	3.6	3.8	-.2
QII	4.6	4.7	-.1	4.3	4.9	-.6
QIII	4.8	4.5	.3	5.4	4.9	.5
QIV	6.0	5.7	.3	6.1	6.0	.1
1977:QI	6.0	6.0	.0	6.9	6.7	.2
QII	7.7	7.7	.0	7.1	7.9	-.8
QIII	4.8	5.1	-.3	5.2	4.7	.5
QIV	6.4	5.5	.9	6.5	6.3	.2
1978:QI	6.3	7.2	-.9	6.6	6.7	-.1
QII	10.6	11.0	-.4	10.5	12.1	-1.6
QIII	7.2	6.9	.3	8.8	8.0	.8
QIV	8.7	8.2	.5	8.7	8.0	.7
1979:QI	9.3	8.9	.4	10.0	9.9	.1
QII	9.9	n.a.	n.a.	10.5	n.a.	n.a.
<u>ANNUAL CHANGES: Year Over Year</u>						
1976	5.2	5.2	.0	5.3	5.4	-.1
1977	6.0	5.9	.1	6.2	6.2	.0
1978	7.3	7.4	-.1	7.6	7.7	-.1
<u>ANNUAL CHANGES: Fourth Quarter Over Fourth Quarter</u>						
1976	4.8	4.7	.1	4.8	4.8	.0
1977	6.2	6.1	.1	6.4	6.4	.0
1978	8.2	8.3	-.1	8.6	8.7	-.1

^{1/} Difference equals revised estimate less previously published estimate.