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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

Producer prices increased sharply in July at all stages of production. Prices of finished goods rose at a 1.1 percent, more than twice the rates in May and June. Prices of consumer foods were unchanged after three months of decline, while prices of consumer finished goods excluding foods rose 1.9 percent. Excluding energy items from these goods the increase was 0.8 percent. Capital equipment prices rose 0.8 percent rate, up from the increases in the two preceding months but about the same as the average monthly increase over the first half of the year. Prices of materials, both intermediate and crude, rose sharply again in July, particularly prices of foodstuffs.

Sales of single-family homes fell sharply in June and prices continued to rise rapidly. Existing home sales--by far the largest part of the market--fell almost 8 percent in June to the lowest level in two years. At the same time, merchant-builder sales of new homes were down 5 percent with declines experienced in all regions of the country. Conversely, the average prices of both new and existing units sold rose sharply in June. The average price for a new home sold in June was \$74,200, 17 percent above a year earlier; the average price for an existing home sold, \$66,100, was 20 percent higher than in June 1978.

The stock of unsold new homes continued at relatively high levels in June. The number of units on the market at the end of the month was down slightly from a month earlier, but it was within the range experienced during the past year. However, lower sales pushed the stock of units for sale to 7.5 months' supply--a figure well above recent levels.

The book value of wholesale trade inventories rose at an \$8.1 billion annual rate in June, well above the downward revised May increase of \$3.4 billion but substantially below the average during the first four months of the year. For the second quarter as a whole, stocks rose at a \$7.4 billion rate, about half the first quarter pace. In June the moderate rise in stocks was accompanied by only a modest gain in sales (0.5 percent). As a result, the inventory to sale ratio for all wholesale trade remained at the May level of 1.17, somewhat below average in the basis of recent historical experience.

Inventories held by wholesalers of durable products increased at a \$4.4 billion rate in June, following the \$5.7 billion pace in the previous month. The increase for the second quarter was just below that during the first three months of the year. In June, the largest increase was at wholesalers of hardware, plumbing, and heating equipment. Stocks rose at motor vehicle suppliers, mostly importers of foreign cars and also some truck distributors; these stocks had fallen for the three consecutive months preceding June. The book value of nondurable inventories rose at a \$3.7 billion rate in June, following a decline now shown for May. In the second quarter as a whole, these stocks rose less than 1/3 as much as in the first quarter. All of the June increase in nondurable inventories was in raw farm products and "other" wholesale goods, all other published categories reported declines, with the largest decline at wholesalers of petroleum and petroleum products.

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	June	July
Finished goods	41.0	9.2	14.3	6.8	6.2	13.0
Consumer foods	10.4	11.9	21.0	-11.1	-14.5	.0
Consumer nonfoods	18.6	8.4	13.4	16.8	16.6	22.3
Capital equipment	12.1	8.0	10.3	9.2	6.1	9.4
Materials:						
Intermediate ^{2/}	44.8	8.3	14.0	14.3	11.6	19.5
Construction	8.3	11.0	11.5	8.3	6.4	8.3
Crude nonfood	4.8	15.6	29.2	22.0	39.1	17.4
Crude food	6.8	18.3	31.0	-7.1	-14.2	24.8
Memorandum:						
Energy commodities ^{3/}	11.0	7.1	21.4	57.7	50.6	56.5

^{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.

WHOLESALE TRADE INVENTORIES: CHANGE IN BOOK VALUE
(Billions of dollars; seasonally adjusted, annual rate)

	1978				1979			
	QI	QII	QIII	QIV	QI	QII(p)	May(r)	June(p)
Total	18.5	10.2	7.7	14.6	13.2	7.4	3.4	8.1
Durable	10.0	7.5	5.6	9.2	5.9	5.3	5.7	4.4
Nondurable	8.5	2.7	2.1	5.4	7.3	2.2	-2.3	3.7
Excluding farm	4.4	3.3	2.7	4.5	6.4	1.3	-.6	1.9
Farm	4.1	-.6	-.7	.9	.9	.9	-1.8	1.8

r = revised

p = preliminary

Totals may not add due to rounding.

WHOLESALE TRADE INVENTORY/SALES RATIO

	1978				1979			
	QI	QII	QIII	QIV	QI	QII(p)	May(r)	June(p)
Total	1.26	1.20	1.20	1.20	1.23	1.19	1.17	1.17
Durable	1.76	1.70	1.68	1.67	1.68	1.66	1.65	1.65
Nondurable	.83	.78	.78	.78	.83	.79	.77	.77

r = revised

p = preliminary

The Domestic Financial Economy

Revision of business loan figures, Table III-6.

Due to revisions of business loan estimates in one district, some of the seasonally adjusted annual rates of change for 1979 reported in the Greenbook have been revised. Where numbers have been changed, previous figures are shown in parentheses.

	1979				12 months ending July e
	Q1	Q2	June	July e	
6. Business loans	22.6 (21.8)	19.4 (19.5)	16.9	(16.7)	17.0
Memoranda:					
11. Sum of items 6 ÷ 10 (Business loans plus commercial paper)	22.8 (22.0)	22.1	19.8 (20.3)	18.3 (20.0)	18.8
12. Memo item 11 plus business loans from finance companies	21.1 (20.5)	21.5	20.1 (20.2)	n.a.	n.a.

Commercial paper outstanding increased \$900 million in July, sharply below the record \$5.4 billion gain in June and the smallest monthly advance since October 1978 (see table). Bank-related issuers allowed a \$300 million run-off in July after increasing their commercial paper outstandings in each of the four previous months. Nonbank-related financial issuers, as a group, increased their outstandings by only \$100 million, partly because Chrysler Financial Corporation tapped its bank credit lines

to redeem maturing paper. In the nonfinancial sector, public utilities and several foreign corporations were active issuers in July as outstandings climbed \$1.2 billion, well above the monthly average in the first half of this year.

Commercial paper rates have increased somewhat further in recent days. Dealers report that this upward movement mostly reflected delayed reaction to recent increases in other money market interest rates as well as large sales by several major issuers. These individuals indicate also that the current problems of Chrysler Corporation have had very little impact on the market and that spreads between high- and lower-rated commercial paper have not widened.

Business credit at finance companies climbed by \$1.0 billion during June (latest available data). Retail automotive loans on commercial vehicles decreased slightly reflecting in part the reduced pace of truck sales in June, but wholesale automotive credit expanded by \$600 million as dealer inventories of cars and trucks continued to increase (see table). The equipment and all other loan category expanded by \$800 million in June. Industry representatives reported strong sales of agricultural equipment accounted for a major portion of this increase.

Weaker than anticipated deposit flows at sampled savings and loan associations in the last 10 days of July have led to a downward revision in the estimated combined growth rate for S&Ls and MSBs to about 5-1/4 percent from the 6-3/4 percent reported in the Greenbook (end-of-month basis).

CHANGE IN COMMERCIAL PAPER OUTSTANDING
(monthly totals or monthly averages, sea. adj., billions of dollars)

	1979					Outstanding 7/31/79
	QI	QII	May	June	July	
Total commercial paper	2.4	3.6	3.4	5.4	0.9	102.5
Bank-related ^{1/}	0.2	0.8	0.9	1.0	-0.3	18.7
Nonbank-related	2.2	2.7	2.5	4.4	1.2	83.8
Financial	1.8	1.8	2.2	3.4	0.1	58.9
Dealer-placed	0.6	0.8	0.7	1.3	0.4	13.1
Directly placed	1.2	1.0	1.5	2.1	-0.3	45.8
Nonfinancial	0.4	0.9	0.2	1.1	1.2	24.8

^{1/} Not seasonally adjusted.

NOTE: Components may not add to total due to rounding.

CHANGE IN BUSINESS CREDIT AT FINANCE COMPANIES
(monthly totals or monthly averages, sea. adj., billions of dollars)

	1979					Outstanding 6/30/79
	QI	QII	April	May	June	
Total business credit	0.8	1.0	0.9	1.0	1.0	68.8
Retail automotive (com'l.)	0.2	--	--	0.1	-0.1	15.2
Wholesale automotive	0.5	0.6	0.5	0.6	0.6	16.1
Accounts receivable ^{1/}	-0.1	--	0.1	0.1	-0.2	6.7
Equipment loans & all other	0.2	0.4	0.2	0.2	0.8	31.0

^{1/} Includes factored accounts receivable.

SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

	1978 1/		1979 1/		1979 2/			Change from:
	High*	Low	High	Low**	FOMC July 11	July 31	August 9	July FOMC
<u>Short-term rates</u>								
Federal funds 1/	10.25	6.58	10.75	9.93	10.28	10.75	10.67	+ .39
Treasury bills								
1-month	9.25	5.82	9.99	8.76	9.35	9.07	9.36	+ .01
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	9.41	+ .23
1-year	9.62	6.55	9.68	8.64	8.76	8.95	8.96	+ .20
Commercial paper								
1-month	10.29	6.48	10.36	9.49	9.91	9.95	10.33	+ .42
3-month	10.52	6.68	10.57	9.66	9.86	9.99	10.14	+ .28
6-month	10.56	6.70	10.62	9.60	9.78	9.96	10.06	+ .28
Large negotiable CDs 3/								
1-month	10.36	6.61	10.36	9.82	10.04	10.12	10.35	+ .31
3-month	10.96	6.76	10.92	9.84	10.05	10.27	10.39	+ .34
6-month	11.52	7.01	11.51	9.86	10.10	10.46	10.49	+ .39
Eurodollar deposit 1/								
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-terms rates</u>								
U S. Treasury (constant maturity)								
1-year	9.58	7.38	9.61	8.76	8.90	9.05	9.00	+ .10
7-year	9.22	7.72	9.35	8.73	8.90	9.02	8.98	+ .08
20-year	8.99	8.00	9.31	8.80	8.90	8.98	8.94	+ .04
Municipal (Bond Buyer) 4/	6.67	5.58	6.58	6.08	6.08	6.19	6.13	+ .05
Corporate Aaa								
New issue 5/	9.30	8.61	9.87	9.39	--	9.63	9.39	--
Recently offered 6/	9.54	8.48	9.94	9.40	9.41	9.59	9.44	+ .03
Primary conventional mortgages 6/	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 9	July FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	742.12	907.74	813.71	873.66	843.86	846.42	858.28	+14.42
NYSE Composite	48.43	60.38	54.25	60.36	58.86	59.14	60.14	+1.28
AMEX Composite	119.73	176.87	154.98	200.54	197.83	198.69	200.54	+2.71
NASDAQ (OTC)	102.66	149.53	119.92	144.27	138.85	141.33	144.27	+5.42

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.

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

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

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

	1978			1979				July '78
	HI	QIII	QIV	QI	QII	June	July ^P	to July '79 ^P
Major monetary aggregates								
1. M-1 (currency plus demand deposits)	8.0	7.9	4.1	-2.1	7.6	14.8	10.1	5.0
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	12.7	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	10.6	8.4
Bank time and savings deposits								
4. Total	12.2	11.3	12.3	8.4	1.2	0.8	12.2	7.6
5. Other than large negotiable CDs at weekly reporting banks	7.6	11.0	10.2	4.5	9.3	13.6	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
Small time <u>4/</u>	6.8	12.7	15.8	16.5	36.3	36.0	21.4	24.9
Large time <u>4/</u>	21.5	26.9	22.4	13.6	-12.1	-16.9	10.3	8.0
12. Time and savings deposits subject to rate ceilings (6+10)	4.7	6.9	7.0	2.2	15.1	21.6	15.3	10.0
Deposits at nonbank thrift institutions								
13. Total	9.2	11.1	11.6	8.8	6.8	8.8	7.6	9.4
14. Savings and loan associations	9.5	12.3	13.1	11.3	7.8	9.9	9.6	11.1
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
MEMORANDA:								
	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	0.7	0.4
19. Nondeposit sources of funds <u>8/</u>	0.8	1.4	3.0	2.4	2.3	3.9	1.9 ^{9/}	2.4 ^{9/}

p--preliminary

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.

9/ Based on data through July 25, 1979.

International Developments

ERRATA:

Replace the corrected table on the following page for
page IV-8.

RESTRICTED

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

	1977	1978	1978		1979		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</u> (excl. U.S. Treas. Oblig.)	-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	-11,496	-7,861	-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	1,020	546	-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)	-14.1	-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.

*/ Less than \$500,000.

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