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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

September 13, 1972

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DOMESTIC NONFINANCIAL SCENE

September 13, 1972

I -- T - 1

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

	Latest Data-1972			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rates)		
Unemployment rate (%)	Aug.	9/1	5.6	5.5 [1/]	5.9 [1/]	6.1 [1/]
Nonfarm employment, payroll (mil.)	Aug.	9/1	72.9	4.6	1.7	3.3
Manufacturing	Aug.	9/1	19.0	5.3	0.5	2.9
Nonmanufacturing	Aug.	9/1	53.9	4.4	2.1	3.5
Private nonfarm:						
Average weekly hours (hours)	Aug.	9/1	37.2	37.2 [1/]	37.0 [1/]	36.9 [1/]
Hourly earnings ($)	Aug.	9/1	3.65	9.9	4.4	5.5
Output per manhour (1967=100)	Q II	8/24	111.6	5.0	--	4.4
Compensation per manhour (1967=100)	Q II	8/24	138.8 [r/]	4.4 [r/]	--	6.2
Unit labor cost (1967=100)	Q II	8/24	124.3 [r/]	-0.5 [r/]	--	1.7
Manufacturing:						
Average weekly hours (hours)	Aug.	9/1	40.7	40.6 [1/]	40.5 [1/]	39.8 [1/]
Unit labor cost (1967=100)	Aug.	8/21	120.2	-3.0	4.4	2.7
Industrial production (1967=100)	July	8/15	113.6	3.2	2.8	6.4
Consumer goods	July	8/15	122.2	0.0	0.7	5.1
Business equipment	July	8/15	101.7	-3.5	1.6	4.7
Defense & space equipment	July	8/15	79.4	16.9	4.6	4.1
Materials	July	8/15	116.2	5.2	4.2	9.2
Wholesale prices (1967=100)	Aug.	9/8	120.1	7.6	7.2	4.4
Industrial commodities	Aug.	9/8	118.7	4.5	4.1	3.0
Farm products & foods and feeds	Aug.	9/8	123.9	16.7	15.1	8.0
Consumer prices (1967=100)	July	8/22	125.3	5.0	3.2	3.0
Food	July	8/22	123.3	6.9	2.6	3.6
Commodities except food	July	8/22	119.5	3.0	3.0	2.0
Services 2/	July	8/22	133.5	3.6	3.3	3.6
Personal income ($ bil.) [3/]	July	8/16	934.2	14.7	6.4	8.3
				(Not at annual rates)		
Plant & equipment expen. ($ bil.)	1972	9/5	31.7	--	--	5.6
Mfrs. new orders dur. goods ($ bil.) [r/]	July	8/30	34.6	-2.8	1.8	17.4
Capital goods industries:	July	8/30	10.7	-12.0	-0.3	15.7
Nondefense	July	8/30	9.2	0.0	5.0	27.9
Defense	July	8/30	1.5	-49.5	-24.1	-27.3
Inventories to sales ratio:						
Manufacturing and trade, total [r/]	July	9/7	1.50	1.51 [1/]	1.51 [1/]	1.60 [1/]
Manufacturing r/	July	8/30	1.68	1.69 [1/]	1.67 [1/]	1.83 [1/]
Trade	July	9/7	1.32	1.33 [1/]	1.34 [1/]	1.38 [1/]
Ratio: durable goods inventories to unfilled orders	July	8/30	.897	.898 [1/]	.925 [1/]	.964 [1/]
Retail sales, total ($ bil.)	Aug.	9/11	38.0	1.5	2.4	9.7
GAF	Aug.	9/11	9.9	0.0	0.5	9.3
Auto sales, total (mil. units) [3/]	July	9/7	11.18	-2.8	2.3	10.9
Domestic models	July	9/7	9.44	-5.5	-1.7	12.0
Foreign models	July	9/7	1.74	15.2	30.8	5.5
Housing starts, private (thous.) [3/]	July	8/16	2,181	-49.3	3.4	4.3
Leading indicators (1967=100)	July	8/25	143.6	0.7	2.3	1.0

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Expansion in real GNP in the current quarter is projected by the staff at an annual rate of about 6 per cent, a fairly strong performance, but considerably short of the unusual 9.4 per cent rate of the second quarter. The slowing of the pace of expansion is evident in recent monthly data for both production and employment. Industrial production is tentatively estimated to have increased at an annual rate of about 6 per cent in August, a rather moderate rise in view of the quite small advance for June and July that was partly related to floods in the East. Since April, the index is estimated to have risen at a rate of less than 4 per cent.

The unemployment rate in August, 5.6 per cent, was essentially unchanged from the 5.5 per cent rate of June and July, reflecting large increases in both the labor force and employment. Payroll employment was up substantially in August after two months of little change, but the increase since May has been less than half as rapid as in the preceding eight months.

There are, however, a number of signs of underlying strength in the economy. Retail sales rose appreciably further in August, according to the advance report, and were well above the second quarter monthly average. Sales of new domestic-type autos were close to the very high July rate and sales of imported cars rose. Manufacturers' new orders for durable goods, apart from the volatile defense category, increased somewhat further in July. Both the recent Commerce plant and equipment survey and the Conference Board survey of manufacturers' capital appropriations indicate rising expenditures in the second half of this year. And business inventories remain generally low relative to sales.

Recently, wages and prices have risen somewhat more rapidly. Average hourly earnings in the private nonfarm economy rose at close to a 5-3/4 per cent annual rate in July and August, after little change from April to June. The wholesale price index was up sharply in August, paced by another large rise in prices of farm products and foods. And industrial price increases were sizable and widespread. In July, the rise in the consumer price index had accelerated to an annual rate of 5 per cent, with food prices--especially meats--up sharply.

Outlook. The GNP projection now assumes growth in the monetary aggregates consistent with an annual rate of expansion of 9 per cent in M_1 in the third quarter and 7 per cent in the fourth. For the year 1973, the earlier assumption of about 6 per cent growth in M_1 has not been changed. The staff expects about the same rise in interest rates by the end of 1973 as under the earlier assumption.

The GNP projections have been shaded up for the fourth quarter of 1972 and for the year 1973. Consumer spending is expected to be very strong: retail sales have been rising rapidly and spending will be bolstered for a time by payment of the 20 per cent increase in social security benefits beginning early this fall. We still expect general revenue sharing, retroactive to January 1, 1972, to boost State and local expenditures starting late this year. Our earlier expectation of a sustained rise in business spending for fixed capital has gained support from the recent Commerce and Conference Board surveys.

With final demands for goods up appreciably, we continue to project a sizable rise in inventory investment, but this source of stimulus should level off after the first quarter of next year. Although projections of residential construction have been raised, such activity is still expected to slacken as 1973 progresses.

On balance, real GNP is projected to rebound to an 8 per cent annual rate of increase in the fourth quarter of 1972. Thereafter, expansion is expected to moderate over the course of 1973 to an average annual rate of growth of about 4-1/2 per cent in the second half of the year. Over the same period, unemployment is projected to decline gradually, falling to a little below 5 per cent.

STAFF GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
Date	8/9/72	Current	8/9/72	Current	8/9/72	Current	8/9/72	Current
1971[1/]	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972	102.3	102.6	6.3	6.4	3.4	3.2	5.6	5.6
1973	114.3	119.4	6.3	6.7	3.5	3.5	5.1	5.0
1972-I[1/]	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
1972-II[1/]	29.9	30.3	8.9	9.4	3.1	2.5	5.8	5.7
1972-III	27.2	26.5	6.2	6.0	3.3	3.3	5.5	5.5
1972-IV	30.3	31.6	7.5	7.9	3.0	3.0	5.3	5.3
1973-I	31.0	32.5	6.5	7.0	3.4	3.4	5.2	5.1
1973-II	26.5	28.5	5.4	5.9	3.6	3.7	5.1	5.0
1973-III	26.0	28.0	4.4	4.8	4.0	4.2	5.0	4.9
1973-IV	26.5	28.0	4.2	4.3	4.2	4.5	5.0	4.8

1/ Actual

The staff continues to project an increase in the private GNP fixed-weight index in the fourth quarter at an annual rate of 3.0 per cent. Recent developments in prices of industrial commodities and in foods, along with the pickup in the rise in hourly earnings, suggest it is unlikely that the low second quarter rate can be maintained even though automobile prices at retail may show a seasonally adjusted decline. For 1973, the staff has raised somewhat the projected increase in the fixed-weight index, reflecting the stronger expansion in real GNP now projected. We also assume--as in the recent chart show--termination of the control program at the end of next April.

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

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 II	1972 Projected III	1972 Projected IV
Gross National Product	1050.4	1153.0	1272.4	1078.1	1109.1	1139.4	1165.9	1197.5
Final purchases	1046.7	1147.9	1258.4	1076.4	1108.6	1134.4	1160.4	1188.0
Private	813.9	890.8	979.5	835.5	859.2	880.3	901.4	922.2
Excluding net exports	813.2	894.9	981.8	837.6	863.8	885.5	905.2	924.9
Personal consumption expenditures	664.9	721.8	795.3	680.5	696.1	713.4	730.1	747.4
Durable goods	103.5	116.2	132.1	106.1	111.0	113.9	118.5	121.5
Nondurable goods	278.1	299.9	330.8	283.4	288.3	297.2	303.2	310.7
Services	283.3	305.7	332.4	290.9	296.7	302.4	308.4	315.2
Gross private domestic investment	152.0	178.2	200.5	158.8	168.1	177.0	180.6	187.0
Residential construction	42.6	52.5	50.9	47.3	51.6	52.8	53.1	52.5
Business fixed investment	105.8	120.6	135.6	109.8	116.1	119.2	122.0	125.0
Change in business inventories	3.6	5.1	14.0	1.7	0.4	5.0	5.5	9.5
Nonfarm	2.4	4.8	14.0	0.8	0.1	4.3	5.3	9.5
Net exports of goods and services	0.7	-4.1	-2.3	-2.1	-4.6	-5.2	-3.8	-2.7
Exports	66.1	72.4	81.8	63.0	70.7	70.0	73.2	75.7
Imports	65.4	76.5	84.1	65.1	75.3	75.2	77.0	78.4
Gov't. purchases of goods and services	232.8	257.1	278.9	240.9	249.4	254.1	259.0	265.8
Federal	97.8	108.7	111.4	100.7	105.7	108.1	109.5	111.3
Defense	71.4	78.9	80.2	71.9	76.7	78.6	79.2	81.0
Other	26.3	29.8	31.2	28.7	28.9	29.6	30.3	30.3
State & local	135.0	148.4	167.5	140.2	143.7	146.0	149.5	154.5
Gross national product in constant (1958) dollars	741.7	789.4	842.0	754.5	766.5	783.9	795.6	811.4
GNP implicit deflator (1958 = 100)	141.6	146.0	151.1	142.9	144.7	145.3	146.5	147.6
Personal income	861.4	934.5	1025.1	881.5	907.0	922.1	938.0	970.8
Wage and salary disbursements	572.9	627.7	692.6	585.9	608.0	620.5	632.7	649.4
Disposable income	744.4	795.8	881.7	758.5	770.5	782.6	800.6	829.6
Personal saving	60.9	55.1	66.7	59.3	55.7	50.1	51.3	62.8
Saving rate (per cent)	8.2	6.9	7.6	7.8	7.2	6.4	6.4	7.6
Corporate profits before tax	83.3	96.1	112.1	83.2	88.2	93.1	98.5	104.5
Corp. cash flow, net of div. (domestic)	78.2	92.0	104.4	82.7	85.9	91.6	93.1	97.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	199.1	226.2	243.4	202.8	221.4	225.4	225.7	232.1
Expenditures	220.8	251.2	272.7	227.5	236.3	246.5	243.8	278.2
Surplus or deficit (-)	-21.7	-25.0	-29.3	-24.7	-14.8	-21.1	-18.1	-46.1
High employment surplus or deficit (-)	3.7	-5.3	-13.8	6.8	8.6	-2.4	1.5	-28.8
Total labor force (millions)	86.9	89.0	90.7	87.7	88.4	88.8	89.2	89.6
Armed forces "	2.8	2.4	2.4	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.6	88.3	85.0	85.9	86.4	86.8	87.2
Unemployment rate (per cent)	5.9	5.6	4.9	5.9	5.8	5.7	5.5	5.3
Nonfarm payroll employment (millions)	70.7	73.5	75.0	71.0	71.8	72.5	73.0	73.6
Manufacturing	18.6	19.0	19.7	18.6	18.7	18.9	19.0	19.3
Industrial production (1967 = 100)	106.8	113.5	122.8	107.4	110.0	113.1	114.1	116.9
Capacity utilization, manufacturing (per cent)	75.0	77.0	80.2	74.6	75.3	77.3	77.3	78.2
Housing starts, private (millions, A.R.)	2.05	2.27	1.98	2.24	2.51	2.25	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.79	11.10	10.48	10.09	10.60	11.22	11.25
Domestic models	8.68	9.32	9.63	9.20	8.69	9.20	9.64	9.75
Foreign models	1.45	1.47	1.47	1.28	1.40	1.40	1.58	1.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 II	1972 Projected III	1972 Projected IV
	Billions of Dollars							
Gross National Product	74.0	102.6	119.4	21.2	31.0	30.3	26.5	31.6
Inventory change	-1.3	1.5	8.9	0.4	-1.3	4.6	0.5	4.0
Final purchases	75.2	101.2	110.5	20.8	32.2	25.8	26.0	27.6
Private	61.4	76.9	88.7	13.5	23.7	21.1	21.1	20.8
Excluding net exports	64.3	81.7	86.9	16.0	26.2	21.7	19.7	19.7
Net exports	-2.9	-4.8	1.8	-2.5	-2.5	-0.6	1.4	1.1
Government	13.8	24.3	21.8	7.3	8.5	4.7	4.9	6.8
GNP in constant (1958) dollars	19.6	47.7	52.6	12.0	12.0	17.4	11.8	15.8
Final purchases	21.1	46.5	46.3	12.1	12.5	13.7	11.7	12.8
Private	22.5	39.5	42.7	8.6	11.4	12.0	10.6	10.6
	Per Cent Per Year							
Gross National Product	7.6	9.8	10.4	8.3 1/	12.0 1/	11.4 1/	9.3	10.8
Final purchases	7.7	9.7	9.6	7.9	12.0	9.3	9.2	9.5
Private	8.2	9.4	10.0	6.6	11.3	9.8	9.6	9.2
Personal consumption expenditures	7.8	8.6	10.2	5.8	9.2	9.9	9.4	9.5
Durable goods	14.4	12.3	13.7	0.0	18.5	10.5	16.2	10.1
Nondurable goods	5.2	7.8	10.3	7.0	6.9	12.3	8.1	9.9
Services	8.2	7.9	8.7	6.7	8.0	7.7	7.9	8.8
Gross private domestic investment	10.9	17.2	12.5	17.3	23.4	21.2	8.1	14.2
Residential construction	36.5	23.2	-3.0	25.2	36.4	9.3	2.3	-4.5
Business fixed investment	4.9	14.0	12.4	13.2	23.0	10.7	9.4	9.8
Gov't. purchases of goods & services	6.3	10.4	8.5	12.5	14.1	7.5	7.7	10.5
Federal	1.3	11.1	2.5	11.4	19.9	9.1	5.2	6.6
Defense	-4.9	10.5	1.6	10.3	26.7	9.9	3.1	9.1
Other	22.3	13.3	4.7	12.9	2.8	9.7	9.5	0.0
State & local	10.2	9.9	12.9	13.3	10.0	6.4	9.6	13.4
GNP in constant (1958) dollars	2.7	6.4	6.7	6.7 1/	6.5 1/	9.4 1/	6.0	7.9
Final purchases	2.9	6.3	5.9	6.5	6.6	7.2	6.0	6.5
Private	3.9	6.6	6.7	5.7	7.4	7.7	6.6	6.6
GNP implicit deflator	4.7	3.1	3.5	1.5 1/	5.1 1/	1.8 1/	3.3	2.9
Private GNP fixed weight index 2/	4.5	3.2	3.5	1.7 1/	4.5 1/	2.5 1/	3.3	3.0
Personal income	6.8	8.5	9.7	6.3	11.6	6.7	6.9	14.0
Wage and salary disbursements	5.7	9.6	10.3	6.9	15.1	8.2	7.9	10.6
Disposable income	8.0	6.9	10.8	4.3	6.3	6.3	9.2	14.5
Corporate profits before tax	12.1	15.3	16.7	-4.3	24.0	22.2	23.2	24.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.9	13.6	7.6	7.4	36.7	7.3	0.5	11.3
Expenditures	8.0	13.8	8.6	9.5	15.5	17.3	-4.4	56.4
Nonfarm payroll employment	0.1	4.0	2.0	2.2	4.3	3.7	2.8	3.3
Manufacturing	-3.9	2.1	3.7	0.9	2.5	4.7	2.1	6.3
Industrial production	0.2	6.3	8.2	3.4	9.4	11.4	7.4	9.7
Housing starts, private	43.1	10.5	-12.8	24.2	48.5	-41.7	-9.1	-18.2
Sales new autos	21.3	6.6	2.9	7.4	-14.9	20.3	23.6	0.8
Domestic models	21.9	7.2	3.2	20.1	-22.2	23.6	19.0	4.6
Foreign models	17.9	1.2	0.4	-65.4	37.5	0.3	53.7	-21.2

1/ At compound rates.

2/ Using expenditures in 1967 as weights.

<u>Industrial production</u>. Industrial production is tentatively estimated to have increased around one-half per cent further in August, to about 114 per cent (1967=100), and was 8 per cent above a year earlier.

Output of consumer goods reached a record level in April and has changed little since then. In August, auto assemblies, after allowance for the model changeover period, were unchanged from the June rate of 8.5 million units. In early August, production of most household appliances was at about the July rate. Production worker manhour data, however, indicate a further rise in output of furniture. Manhour data also suggest a gain in production of both business and defense equipment but a further decline in output of aircraft.

Among materials, output of raw steel rose further and trade reports suggest some gains in production of nonferrous metals. However, output of crude oil declined and production of paperboard changed little.

The slowing down in the rate of increase in total industrial production from April to July was widespread, with little change in output of consumer goods, both durable and nondurable, business equipment, and durable goods materials. However, production of defense equipment, construction products, and nondurable goods materials, continued to advance. The rise in the total index from the first to the second quarter, however, was both large and general, as shown in the table.

INDUSTRIAL PRODUCTION
Per cent changes

	Annual Rates		
	QIV 1971 to QI 1972	QI 1972 to QII 1972	QII 1971 to QII 1972
Total	9.2	11.6	5.6
Consumer goods	5.6	9.6	5.8
Durable	7.6	21.6	8.2
Nondurable	5.2	5.2	4.9
Dusiness equip.	7.6	8.0	6.8
Defense equip.	2.0	11.6	.9
Construction prod.	6.4	5.2	3.5
Materials	14.4	15.2	5.9
Durable	16.8	18.4	6.4
Nondurable	6.0	12.4	6.4

Business equipment. The second quarter increase in business equipment production (gross weighted series) was somewhat larger than the first quarter annual rate of 9 per cent. These changes differ from the Bureau of Economic Analysis (BEA) plant and equipment expenditure survey, which show a rate of increase in current dollars of 18 per cent (annual rate) in the first quarter and little change in the second quarter. However, the increases in the two series are similar from the fourth quarter of 1971 to the second quarter of 1972 after allowing for changes in prices.

The difference in the quarterly pattern does not appear implausible, considering that the two series have different coverage and timing in the appropriation, production, and expenditure sequence. One would expect the two series to move roughly together over a longer period, however, as equipment and plant are somewhat complementary, and the two-quarter performance is consistent with that.

Expansion in output of business equipment showed some tendency to slacken in June and July from the May level. However, tentative August figures suggest a renewal of advance, which appears roughly consistent with BEA's anticipated increase of 4 per cent in plant and equipment expenditures in the third quarter.

Productivity and labor costs. Industrial productivity increases have accelerated over the past two months to an annual rate of 4.8 per cent, with the August figure estimated on the basis of incomplete information according to data developed from the Board's production index. In the second quarter the increase was at a 3.7 per cent rate. In a related development, average unit labor costs have continued to rise a little further since the first quarter but are only 2 per cent above a year earlier.

Production indicators of inventory change. The new supply of consumer goods (constant dollar value of production plus constant dollar net imports) is showing little change so far in the third quarter, after expanding at an 11 per cent annual rate in the second quarter. With supply constant and estimated real personal consumption expenditures rising further, a considerably smaller increase in inventories of finished consumer goods is thus indicated for the third quarter than for the second.

Inventories of industrial materials, however, are indicated to be rising further in the third quarter, continuing the marked expansion under way since last autumn judging by changes in the production index and foreign trade data in constant dollars.

Retail sales. Retail sales in August rose 1-1/2 per cent, nearly as much as in July, according to the Census advance estimate. Most of the August increase was in durable goods, with particularly strong gains in the automotive and the lumber-hardware-farm equipment groupings; total sales apart from these two categories were up 0.5 per cent. Sales of all retail stores in July and August averaged 2.8 per cent above the second quarter monthly average and the total less the two groupings was 2.0 per cent higher.

More complete sample counts for the past two months show the level of sales in July slightly higher and the June dip somewhat smaller than previously reported.

RETAIL SALES

(Percentage change from previous period
from seasonally adjusted data)

	1972				
	I	II	June	July1/	August2/
Total sales	1.2	3.3	- .9	1.8	1.5
Durable goods	.3	4.2	- .2	2.1	3.1
Auto	-3.1	6.4	-.5	1.9	4.0
Furniture and appliances	9.2	-.5	-.7	4.4	-.8
Nondurable goods	1.6	2.9	-1.2	1.7	.6
Food	1.7	3.6	-1.9	2.4	.5
General merchandise	2.3	2.7	-1.6	2.2	.2
Total less auto and non-consumption items	2.1	2.9	-1.0	1.7	.5
GAF	3.0	2.4	-1.8	2.4	- .0

1/ Based on preliminary data.
2/ Based on partial sample, advance estimates. Components below durable and nondurable totals are confidential.

Unit sales of consumer durables. August sales of domestic-type autos were at a 9.4 million unit rate, down 6 per cent from July but up 12 per cent from August 1971. Dealer inventories were amounted to a 44 day supply at the end of the month, 4 per cent below July and 25 per cent below the abnormally high level of a year ago.

August sales of imported cars were at a 1.7 million unit rate, up 15 per cent from July and 5 per cent from a year earlier. The import share, on a seasonally adjusted basis came to 15 per cent compared with 13 per cent in July and 16 per cent in August last year.

Partially complete data indicate that unit purchases of major home appliances by retailers were higher in August than both a month and a year earlier. Increases were widespread, with all items except freezers advancing. Air conditioner purchases recovered after falling off considerably earlier in the summer, partly because of cool weather. Retailer purchases of TVs--including domestic label imports--were down slightly from July, but substantially above a year earlier. Radio purchases, composed almost entirely of imported sets, also were lower than in July and above a year earlier.

UNIT PURCHASES OF HOME GOODS BY RETAILERS
Seasonally adjusted, 1967=100

	1971	1972			Per cent change	
	August	June	July	August	Month ago	Year ago
TVs 1/	106	130	142	139	- 3	30
Radios	77	94	98	80	-13	4
Home appliances 2/	127	119r	125r	139e	11	9

1/ Includes foreign-made units sold under U.S. brand names. Foreign-made sold under foreign brands not included.

2/ Weighted average of indexes for dishwashers, driers, freezers, electric ranges, gas ranges, room air conditioners, refrigerators, washing machines and vacuum cleaners. Weights are 1967 retail sales values.

Consumer credit. Net growth in instalment credit outstanding slowed to a $12.3 billion annual rate (seasonally adjusted) in July, the second successive month in which the net change fell below the record rate of increase registered in May. The July increase, although still high compared to earlier years, was slightly below the average for the previous 12 months.

Consumers increased their instalment debt by $13 billion during the year ending July 31, 1972. Commercial banks acquired about half of this increase, raising their share to 43.1 per cent of total outstandings. Credit unions also increased their share. Finance companies on the other hand, held a smaller proportion of consumer receivables at the end of July 1972, than a year earlier.

SOURCES OF CONSUMER INSTALMENT CREDIT
(Percentage share of total outstandings by holder)

Date	Commercial banks	Finance companies	Credit unions	Retail and other
1971				
July	42.3	30.1	12.9	14.7
Aug.	42.4	29.9	13.0	14.7
Sept.	42.5	29.7	13.1	14.7
Oct.	42.5	29.6	13.1	14.8
Nov.	42.4	29.5	13.1	15.0
Dec.	42.0	29.3	13.0	15.7
1972				
Jan.	42.2	29.4	12.9	15.5
Feb.	42.3	29.4	13.0	15.2
Mar.	42.4	29.4	13.1	15.1
Apr.	42.3	29.4	13.1	14.9
May	42.7	29.3	13.2	14.8
June	42.9	29.2	13.2	14.6
July	43.1	29.2	13.2	14.6

<u>Fixed capital spending plans</u>. The Commerce Department August survey of business plans for new plant and equipment expenditures shows a slight scaling down of the 1972 increase indicated in May, from 10.3 per cent to 9.7 per cent. However, the revision is due to a shortfall of actual from planned spending in the second quarter, and a substantial increase is now projected for the second half, whereas earlier only a slight gain was planned. Manufacturers continue to expect a 5.6 per cent increase in 1972 as the large shortfall in actual spending from May second quarter plans is expected to be made up in the second half of the year. In nonmanufacturing, however, a shortfall in first half spending by communications firms is not anticipated to be recouped in the second half.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT
(Per cent change from prior period)

	Year 1972		1972			
	May Survey	August Survey	I (Actual)	II	III (Anticipated)	IV
Total	10.3	9.7	4.3	.4	3.7	1.6
Manufacturing	5.6	5.6	-.9	.9	7.4	1.8
Durable goods	11.3	10.9	3.1	-1.9	9.8	2.2
Nondurable goods	.6	.8	-4.6	3.9	5.1	1.5
Nonmanufacturing	13.1	12.1	7.3	.1	1.8	1.5

New appropriations by large manufacturers rose 4.4 per cent in the second quarter--down from the 10.7 per cent gain in the first quarter--as reported by the Conference Board. Excluding the volatile petroleum industry, new appropriations rose 9.5 per cent in the second quarter--compared with 8.6 per cent in the first quarter. Capital expenditures of large manufacturers were about unchanged and unspent backlogs rose. The bulk of new appropriations is generally spent within two to three quarters; this survey thus tends to support the spending plans reported in the Commerce survey.

Construction and real estate. Seasonally adjusted value of new construction put in place, which was revised downward by 2 per cent for July, changed little in August at an annual rate of about $121 billion. Expenditures for residential construction dipped in August from the peak reached in July. While outlays for both private nonresidential and public construction apparently held at about their month earlier rates, they remained below the highs recorded earlier this year.

Over-all, construction costs have continued to edge up only moderately this year. As a result, the year-to-year increase in August in the Census Bureau's composite cost index approximated 3 per cent. This contrasts with a year-to-year expansion of nearly 8 per cent in the first quarter of 1972 and 9 per cent in 1971 as a whole.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1972				
	QI	QII	June	July	August 1/
Total - current dollars	121.8	121.5	121.4	121.4	121.3
Private	90.7	92.4	92.8	92.4	92.2
Residential	51.5	52.7	53.0	53.4	53.1
Nonresidential	39.1	39.6	39.9	39.0	39.1
Public	31.2	29.1	28.5	29.0	29.1
State and local	26.6	24.6	23.7	24.6	24.6
Federal	4.5	4.5	4.8	4.4	4.5
Total - 1967 dollars	90.0	88.9	88.6	88.2	88.0

1/ Data for August 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts slipped further in July, although the rate continued above the 2 million unit mark for the fifteenth oonsecutive month. With residential building permits and mortgage commitments still exceptionally high, indications are that the July rate of housing starts was at least maintained in August and the third quarter average may not be appreciably below the second quarter pace.

PRIVATE HOUSING STARTS, PERMITS, AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	1971	1972				
	QIV	QI	QII	May	June(p)	July(p)
Starts	2.24	2.51	2.25	2.35	2.29	2.13
1-family	1.25	1.35	1.26	1.34	1.28	1.28
2-or-more-family	.99	1.16	.99	1.01	1.01	.90
Permits	2.06	2.09	2.04	1.96	2.12	2.08
Completions	1.34	1.98	1.88	1.84	1.89	n.a.
MEMORANDUM:						
Mobile home shipments	.51	.57	.60	.57	.60	.57

p/ Preliminary
n.a. Not available

The major part of the starts reduction since the first quarter has occurred in the multifamily sector. Meanwhile, the potential for some further downward adjustment in single-family starts over the near term has increased. Even though sales of new homes by merchant builders turned up in July to a near-record high, stocks of units available for sale continued to rise and were at a level equaling 6 months' supply at the current rate of sales. Except for June, this was the highest stocks-sales ratio since early 1970.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes sold 1/	Homes for sale 2/	Median price of: Homes sold	Homes for sale
	(Thousands of units)		(Thousands of dollars)	
1971				
QIV	682	284	25.5	25.9
1972				
QI (r)	701	318	26.2	26.1
QII (p)	687	357	26.9	26.5
May (r)	696	333	27.0	26.4
June (p)	674	357	27.0	26.5
July (p)	724	362	27.5	26.7

1/ SAAR.
2/ Seasonally adjusted, end of period.

p Preliminary
r Revised

<u>Cyclical indicators</u>. The Census trend-adjusted composite index of leading indicators rose .7 per cent in July (p). As in June, the rate of increase was below that of earlier months.

Leading series increasing in July were initial unemployment claims (inverted), contracts and orders for plant and equipment, and the ratio of price-to-unit labor cost. Series declining in July were new orders for durable goods, stock prices, industrial materials prices, and housing permits. The average workweek in manufacturing was unchanged.

The coincident composite rose .5 per cent while the lagging composite declined by .2 per cent, reflecting declines in commercial and industrial loans outstanding and unit labor cost in manufacturing and a then-anticipated decline in plant and equipment spending (since revised) in the third quarter.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	March	April	May	June	July (p)
12 Leading (trend adjusted)	2.5	1.2	1.5	.1	.7
12 Leading, prior to trend adjustment	2.2	.7	1.1	-.3	.3
5 Coincident	1.1	1.0	.8	.4	.5
5 Coincident, deflated	1.1	.9	.7	.3	.6
6 Lagging	1.0	1.4	1.0	.4	-.2

p - Preliminary

<u>Manufacturers' orders and shipments</u>. New orders for durable goods declined 2.8 per cent in July (p) after a 3.8 per cent increase in June. Both the June increase and the July decline were due to swings in defense orders.

Excluding defense, July orders were up 1.4 per cent from June, because of a substantial increase in motor vehicle orders. July data for motor vehicle shipments and orders are subject to revision not only when August preliminary data are received but also when September data come in, at which time the three months are averaged to yield the seasonally adjusted series.

Nondefense capital goods orders were unchanged in July at a level 2.3 per cent higher than the second-quarter average.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
Per cent change

	July from June	July from Q II Average
Durable goods, total	-2.8	- .1
Excluding defense	1.4	2.0
Primary metals	-2.0	1.4
Motor vehicles and parts	17.0	11.8
Household durables	-4.2	-5.4
Capital goods industries:		
Nondefense	.0	2.3
Defense	-49.5	-30.7
Construction & other durables	-1.1	- .7

Shipments of durable goods rose 3 per cent in July. Unfilled orders rose 0.7 per cent, for the tenth consecutive month of increase.

Inventories. Book value of business inventories rose at an $8.7 billion annual rate in July (p), higher than the June rate but somewhat below the second-quarter average. (For release September 14.) Substantial inventory increases in manufacturing and wholesale trade were partly offset by a sizable decline at durable goods retailers, mainly automotive.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, billions of dollars)

	1972			
	Q I	Q II (Rev.)	June (Rev.)	July (Prel.)
Manufacturing and trade	5.8	9.6	5.4	8.7
Manufacturing, total	3.1	4.2	8.2	8.6
Durable	2.9	3.3	4.7	4.0
Nondurable	.2	.9	3.5	4.6
Trade, total	2.7	5.3	-2.8	.1
Wholesale	1.0	1.9	-1.1	4.9
Retail	1.7	3.5	-1.8	-4.8
Durable	- .4	.9	-3.0	-6.8
Automotive	-1.1	- .5	-3.7	-6.4
Nonautomotive	.7	1.4	.7	- .4
Nondurable	2.1	2.5	1.2	2.0

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

Sales increased more than inventories in July and the inventory-sales ratio declined to the May level. The ratio of inventories to unfilled orders at durable goods manufacturers was little changed in July and below year-earlier levels.

INVENTORY RATIOS

	1971 June	1971 July	1972 June (Rev.)	1972 July (Prel.)
Inventories to sales:				
Manufacturing and trade	1.58	1.60	1.51	1.50
Manufacturing, total	1.81	1.83	1.69	1.68
Durable	2.19	2.22	2.04	1.99
Nondurable	1.37	1.37	1.28	1.31
Trade, total	1.36	1.38	1.33	1.32
Wholesale	1.20	1.23	1.22	1.23
Retail	1.46	1.47	1.41	1.37
Durable	2.10	2.11	1.90	1.81
Automotive	1.77	1.76	1.54	1.44
Nonautomotive	2.60	2.63	2.42	2.36
Nondurable	1.17	1.17	1.16	1.15
Inventories to unfilled orders:				
Durable manufacturing	.963	.964	.898	.897

Labor market. Nonfarm payroll employment increased by 280,000 in August after little net change in June and July. The August increase, which partially reflected a reduction in strike activity and recovery from the storm damage, was about equally divided between the service and goods-producing industries. Manufacturing employment increased 85,000 in August, returning to the May-June level of 19.0 million, which was about a half million above the low in August 1971, but 1.25 million below the summer 1969 peak. The factory workweek edged up 0.1 hour in August to 40.7 hours, an increase of nearly 1 hour since last fall. Sizable employment increases were reported in trade, services, and State and local government.

Since August 1971 the number of payroll jobs has increased by about 2.3 million but the bulk of the increase occurred before May 1972. Since May nonfarm payroll employment has increased at an annual rate of only 1.3 million with most of the gain in the service-producing industries. These developments reflect the slower growth of industrial output in this period.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted)

	Aug. 1971-Aug. 1972*	Aug. 1971-May 1972	May 1972-Aug. 1972
	--Change in thousands, annual rate--		
Total	2,289	2,705	1,252
Goods-producing			
Manufacturing	523	688	104
Mining	-15	-9	-28
Construction	8	49	-116
Service-producing			
Trade	550	597	416
Finance and services	636	632	632
Federal government	-45	26	-256
State and local government	535	573	560

* Not seasonally adjusted.

Unemployment and labor force. The unemployment rate was essentially unchanged at 5.6 per cent in August, following two months at 5.5 per cent, as both total employment and the civilian labor force showed a resurgence after little growth in July. Jobless rates for most of the major age-sex-color groups showed little change except for the volatile teenage rate which moved up sharply, reflecting large increases in joblessness among 16 and 17 year-olds. The unemployment rate was about half of one percentage point lower than in the summer of 1971, with the bulk of the improvement among adult males.

After showing little change since May, the civilian labor force rose nearly 400,000 in August, to 86.9 million--2.4 million above a year earlier. Virtually all of the August gain was attributable to women and teenagers seeking part-time work; over the year, however, labor force growth has been more evenly distributed among the three age-sex groups with over 80 per cent of the increment among those working full-time or seeking full-time employment.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971	1972		
	August	June	July	August
Total	6.1	5.5	5.5	5.6
Men 20 years and older	4.5	4.0	3.9	3.9
Women 20 years and older	5.8	5.5	5.7	5.5
Teenagers	17.1	14.5	14.8	16.9
Household heads	3.8	3.6	3.3	3.3
White workers	5.6	5.0	5.0	5.1
Negro workers	9.9	9.4	9.9	9.7

Earnings. Adjusted average hourly earnings of production and nonsupervisory workers on private nonfarm payrolls rose by 4.4 per cent in August and at a 5.7 per cent annual rate over the past two months after showing virtually no change from April to June. The largest advances occurred in construction and transportation.

Since the beginning of the controls program in August 1971 the private nonfarm hourly earnings index has risen by 5.6 per cent, compared to a 6.9 per cent increase the previous year. Slowing has been most apparent in the nonindustrial sector, where gains have averaged less than the Pay Board guidelines, and in the construction industry. The settlement of the backlog of cases awaiting review by the Construction Industry Stabilization Committee may result in a faster growth of construction earnings in the months ahead.

HOURLY EARNINGS INDEX*
(Per cent change; seasonally adjusted, annual rates)

	Aug. 1971-Aug. 1972	Jan. 1972-Aug. 1972	July 1972-Aug. 1972
Total private nonfarm	5.6	4.1	4.4
Manufacturing	5.8	4.5	6.2
Mining	6.4	3.8	7.9
Contract construction	5.5	3.8	14.0
Transportation & p.u.	10.6	8.1	11.7
Trade	4.6	3.5	3.5
Finance	3.9	3.0	-1.8
Services	3.5	1.1	-1.8

* Adjusted for inter-industry shifts and, in manufacturing, for overtime hours.

Wholesales prices. Wholesale prices rose at a seasonally adjusted annual rate of 7.9 per cent in August. Compared with August last year, when price controls were inaugurated, the increase was 4.4 per cent.

The index of industrial commodities rose at an annual rate of 4.6 per cent from July to August with increases widespread. Especially sharp advances were posted for fuels, hides and leather, and lumber and plywood. A seasonally adjusted increase for motor vehicles and equipment also had a major influence on the overall index.

The index of prices of consumer nonfood finished goods rose faster than in other recent months as higher prices were reported for gasoline, tires and tubes, furniture, and appliances. Prices of producer finished goods also rose from July to August largely as a result of seasonally adjusted increases for motor vehicles and machinery. Prices of processed and crude materials also moved higher.

Another large monthly increase, 18 per cent at a seasonally adjusted annual rate, was reported for the August index of farm and food products. While the index declined 0.2 per cent on a seasonally unadjusted basis, the seasonal pattern called for a decline of 1.6 per cent. Of major importance to the change were seasonally adjusted increases for fresh fruits and vegetables, grains, eggs, and dairy products. Prices of both livestock and meats declined for the first time since April on a seasonally unadjusted basis, but the declines were less than expected seasonally.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Pre-stab. period	Phase I	Phase II		Phase I & II
	Dec. 1970 to Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to Aug. 1972	July 1972 to Aug. 1972	Aug. 1971 to Aug. 1972
All commodities	5.2	- .2	5.9	7.9	4.4
Farm and food products 1/	6.5	1.1	10.4	18.0	8.0
Industrial commodities	4.7	- .5	4.1	4.6	3.0
Crude materials 2/	3.3	2.3	10.3	21.0	8.2
Intermediate materials 3/	6.5	- .7	4.4	4.1	3.1
Finished goods 4/	2.7	- .9	3.3	4.2	2.3
Producer	3.7	-2.0	3.4	4.1	2.3
Consumer	2.2	- .4	3.1	4.3	2.2

1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Excludes foods.

Near the end of August, the Price Commission denied the requests of General Motors Corporation and the Ford Motor Company to raise prices on their 1973-model cars and trucks--except for relatively small increases which were approved for all Big-Four companies to cover costs of some optional equipment made standard--because such increases might increase profit margins above allowable limits. These companies probably will resubmit their requests for price increases some time in October. The Price Commission did not deny the requests of the Chrysler Corporation and American Motors, but their applications remain suspended by the Commission's action of late August. Public hearings on possible increases in prices of motor vehicles began on September 12.

Given the recent decisions of the Price Commission on prices of 1973-model cars, the value of quality improvements in 1973 models reported by the BLS, and the change in prices expected seasonally, wholesale prices of automobiles can be expected to decline on a seasonally adjusted basis when prices of the new models are first reflected in the WPI--probably in the index for October.

Other governmental actions which have been taken concerning prices since mid-August include the introduction of new controls on the pricing of coffee at the manufacturers' level, the removal of export controls on hides, the delay on decisions on requests for price increases by some food processors pending a review of the requests by the Internal Revenue Service (IRS), and the investigation by the IRS of pricing practices in the lumber industry.

Consumer prices. Consumer prices rose at a seasonally adjusted annual rate of 5 per cent in July, the largest increase since last February. Food prices rose sharply, especially meats; non-food commodities resumed rising after a pause in June, and service costs continued a moderate upward trend.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Pre-stab. period	Phase I & II	Phase II	
	Dec. 1970 to Aug. 1971	Aug. 1971 to July 1972	Nov. 1971 to July 1972	June 1972 to July 1972
All items	3.8	2.9	3.3	5.1
Food	5.0	3.7	4.4	7.1
Commodities less food	2.9	1.9	2.6	3.1
Services 1/	4.6	3.5	3.6	3.7
Addendum:				
All items less mortgage costs 2/	4.6	2.9	3.4	5.3
Services less home finance 1/ 2/ 3/	6.7	3.0	3.4	2.8
Commodities less food, used cars, home purchase 3/	2.5	1.6	2.1	1.0

1/ Not seasonally adjusted.
2/ Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

Among non-food commodities, gasoline prices rose substantially after a period of weakness. Supplies are reported short and refinery capacity insufficient. Prices of used cars and of residences rose significantly in July. On the other hand, clothing prices fell for the second month.

Meat prices rose to levels 10 per cent above a year ago in July as livestock marketings remained below levels of last year. According to preliminary information, retail meat prices continued to rise in August as the spread between farm and retail prices of beef widened further. During Phase II the retail value of beef has climbed about 10 per cent, but the spread, representing the cost of packing, transportation and distribution, has increased 25 per cent. On the other hand, the spread on pork has been reduced as farm prices have risen very sharply.

Livestock marketings have continued to run below expectations in August, as they have all year. Unless they rise substantially in September, we may not get the expected seasonal drop in food prices this fall.

In addition to the relatively short supply of meat, food prices have been raised by poor growing weather for vegetables and a reduced fruit crop.

Services connected with home-ownership, insurance--mortgage interest, taxes, and home repairs--accounted for about two-thirds of the rise in service costs in July.

MEAT PRICES AND MARGINS[1/]
(Indexes, 1967=100)

	1971 Nov.	1972 March	1972 June	1972 July	1972 August[2/]	1972 Week of Aug. 26[2/]	Per cent changes Nov. 1971 to Aug. 1972[2/]
Beef							
Retail value	128.7	140.2	137.4	142.0	142.1	141.3	+10.4
Net farm value	132.6	135.7	146.2	146.2	135.3	128.1	+2.0
Spread	121.6	148.3	121.6	134.5	152.4	164.9	+25.3
Pork							
Retail value	106.2	118.2	122.0	127.4	129.9	129.9	+22.3
Net farm value	97.4	120.1	136.8	146.8	147.4	146.0	+49.9
Spread	115.7	116.0	106.2	106.5	111.1	112.7	-4.0

1/ Calculated from USDA dollars-and-cents estimates for choice beef and pork.

2/ Preliminary estimates, not for publication, based on USDA chainstore sample; August figures are four-week averages.

Agricultural developments. During the month ending August 15, prices received by farmers increased 1 per cent reflecting higher prices for wheat, milk, hogs, lettuce, and grapefruit partly offset by declines in cattle prices. The index was 13 per cent above a year earlier. Prices paid by farmers remained unchanged at 6 per cent above last year.

Meat production expanded during August to near the level of a year earlier after falling off about 5 per cent in July. The increase in volume was mainly in cattle slaughter, and cattle prices declined 6 per cent but then increased somewhat in early September. August beef production was 3 per cent above a year earlier but below that expected based on large numbers of feed during previous months.

Through September 12 hog prices remained at the high level established in early July, around $29.00 per 100 pounds liveweight. Pork production during August was 10 per cent below last year.

Wheat prices have risen about 40 cents per bushel, or 25 per cent, since the Soviet Union agreement was announced on July 8. The subsidy to wheat exporters, calculated as the difference between the domestic and world wheat prices, rose from $.07 per bushel on July 6 to $.47 in late August, Gulf port basis. Grain sales are expected to total 400 million bushels of wheat and 100 to 180 million bushels of corn. The Commodity Credit Corporation will finance a maximum of $500 million of purchases at 6-1/8 per cent interest.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates					SAAR (per cent)	
Total reserves		August	33.4e	10.1	7.1	8.7
Reserves available (RPD's)		August	30.6e	8.9	8.5	7.3
Money supply						
M1		August	240.4e	5.0	8.3	5.4
M2		August	498.1e	7.5	9.9	9.6
M3		August	781.3e	10.1	11.9	12.0
Time and savings deposits (Less CDs)		August	257.7e	9.9	11.2	13.8
CDs (dollar change)		August	39.3e	1.2	3.0	8.5
Savings flows (S&Ls + MSBs)		August	283.2e	15.0	15.6	16.5
Bank credit (end of month)		August	528.6	18.2	9.5	12.2
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	Sept. 6	4.89	.20	.41	-.84
Treasury bill (90 day)	"	Sept. 6	4.60	.76	.74	.04
Commercial paper (90-119 day)	"	Sept. 6	5.00	.22	.52	-.63
New corporate bonds Aaa	"	Sept. 8	7.28	.04	.03	.07
Municipal bonds (Bond Buyer)	1 day	Sept. 7	5.39	.15	.08	.03
FNMA auction yield	wk. endg.	Sept. 5	7.63	--	.01	-.25
Dividends/price ratio (Common stocks)	"	Sept. 6	2.81	-.03	-.07	-.29
NYSE index (12/31/65=50)	end of day	Sept. 11	60.12	-1.44	.72	4.86
			Net change or gross offerings			
Credit demands			Current month		Year to date	
			1972	1971	1972	1971
Business loans at commercial banks		August	2.3	2.0	7.8	5.3
Consumer instalment credit outstanding		July	1.0	0.8	7.9	3.1
Mortgage debt outst. (major holders)		July	5.0e	4.3	28.7e	21.1
Corporate bonds (public offerings)		July	2.5e	3.5	19.1e	24.1
Municipal long-term bonds (gross offerings)		July	1.9e	2.0	14.2e	14.9
Federally sponsored Agcy. (net borrowing)		August	0.2e	0.4	2.1e	-0.7
U.S. Treasury (net cash borrowing)		Sept.	0.7e	-2.0	3.4e	12.3
Total of above credits			13.6	11.0	83.2	80.1

e - Estimated

DOMESTIC FINANCIAL SITUATION

Short-term yields have increased 25 to 80 basis points since the last Committee meeting, with the largest increases in the Treasury bill area. Bill rates had been unusually low relative to other rates in July and early August because of special demands related to the advance refunding and acquisitions by foreign central banks. In recent weeks Treasury debt management, foreign sales, and Federal Reserve operations (partly to offset a large drop in the Treasury cash balance at the Fed) increased the market supply of bills by about $3.4 billion. A considerable portion of these bills flowed to dealer positions at a time when the Federal funds rate and dealer financing costs were rising. And, in an environment of increased market uncertainty regarding the outlook for monetary policy, commercial banks--with continued strong loan demands--stepped up their CD sales, adding to upward rate pressure in short-term markets.

Long-term rates have risen 10-35 basis points since the last Committee meeting. The largest increase was for Treasury bonds as dealers worked down large positions in the aftermath of the August advance refunding. Only modest upward rate pressures developed in the public corporate bond market, where the new issue volume and forward calendar were relatively light. In the mortgage market, continued large inflows to the thrift institutions and the high level of commitments and mortgage purchases by commercial banks and nonbank thrift institutions contributed to the stability of mortgage rates.

Outlook. Apart from monetary policy actions, the two factors which are likely to have a major influence on financial market developments over the balance of the year are Treasury cash borrowing and business loan demand at commercial banks.

With inventory investment by businesses projected to rise significantly in the final months of the year, business loan demands can be expected, at a minimum, to be maintained at a high level. While banks have substantial liquidity, they can be expected to reduce their holdings of liquid assets, to step up their CD offering rates, and to temper their participation in the tax exempt market. At the same time, Treasury net cash borrowing demands in the fourth quarter--estimated at $10-$12 billion--are considerably larger than seasonal. And while about two-fifths of this reflects revenue sharing, much of which will be re-invested initially, this borrowing is likely to be concentrated in the last two months of the year.

In long-term markets, corporations probably will continue to do a substantial proportion of their long-term financing through equity offerings and private placements, which should lead to a continuation of the moderate pace of public bond offerings. Mortgage demands are expected to moderate seasonally, but the volume of tax-exempt issues is projected to be maintained at a sizable level by refundings, revenue issues, and industrial aid bonds.

On balance, Treasury and business loan demands suggest upward pressure on short-term market interest rates as the fourth quarter progresses. However, in long-term markets upward rate adjustments are likely to be limited by the continued more moderate pace of public bond offerings by corporations and the large, but decelerating, inflow of funds to mortgage lenders. At the moment, in the context of expectations of increasing credit demands, particularly in the short-term area, markets are especially sensitive to indications of any change in the stance of monetary policy that might significantly reduce the supply of funds.

Monetary aggregates. M_1 growth slowed in August following the extremely rapid expansion in July, with preliminary data indicating a moderate 5 per cent rate of increase. This is similar to the rate recorded in June and for the second quarter as a whole, but analysis of the weekly pattern of M_1 changes over the July-August period suggests that the underlying trend in August was somewhat stronger than indicated by the monthly average.

In July, a significant part of the growth in M_1, which Demand Deposit Ownership Survey data suggest was concentrated at non-financial businesses, developed early in the month and was carried through a large part of the period. Thus, the high July daily average base that ensued exaggerated the slowdown in August, when growth was distributed more evenly over the period. From the last week of July to the last week of August, M_1 expanded at about an 8.5 per cent annual rate. On balance, therefore, the trend for both months appears basically stronger than in June and the second quarter.

In retrospect, monetary expansion during the second quarter appears to have been slower than might have been expected in view of the rapid increase in nominal GNP. Thus, the acceleration in the two most recent months may reflect a return to more normal relationships.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971	1972				
	QIV	QI	QII	June	July	August p
		Per cent at annual rates				
M_1 (Currency plus private demand deposits)	1.1	9.3	5.3	5.6	14.2	5.0
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	8.0	13.3	8.6	10.6	11.3	7.5
M_3 (M_2 plus deposits at mutual savings banks and S&L's)	9.6	15.5	10.8	11.5	13.6	n.a.
Adjusted bank credit proxy	9.7	11.3	11.1	4.7	12.2	8.7
Time and savings deposits at commercial banks						
a. Total	15.9	14.8	15.7	16.3	11.6	13.5
b. Other than large CD's	14.7	17.1	11.8	14.8	8.5	9.9
		Billions of dollars1/				
Memorandum:						
a. U.S. Government demand deposits	-.4	-.1	-.8	-2.1	--	-.7
b. Negotiable CD's	1.8	-.1	3.7	.8	1.0	1.2
c. Nondeposit sources of funds	--	-.3	--	--	.1	.3

p - Preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages, not annualized.

Growth in M_2 also slowed in August to a 7.5 per cent annual rate as compared with roughly 11 per cent in the two preceding months. The slowdown was accounted for entirely by the M_1 component, with time and savings deposits other than large CD's increasing somewhat faster in August than in July. Even with this acceleration, growth in such deposits remained below the rapid rates realized earlier in the year, when interest rates on market securities were lower.

The adjusted credit proxy, as well as M_1 and M_2, decelerated in August, expanding at about a 9 per cent annual rate. In addition to reduced growth in demand deposits, U.S. Government deposits declined by about $700 million. Partly offsetting the slower growth in private demand deposits and decline in U.S. Government deposits, however, large negotiable CD's outstanding spurted ahead by about $1.2 billion, and nondeposit sources of funds increased by about $300 million, primarily through the issuance of commercial paper by bank affiliates.

The rise in outstanding CD's during August occurred despite a large volume of maturing issues and represented the fifth consecutive month of significant expansion in such deposits. Since the end of the first quarter, the cumulative increase in these deposits amounts to almost $6 billion.

During the second quarter, the increases in CD's were concentrated primarily at weekly reporting banks outside New York City, probably reflecting the consistently strong loan demand at such institutions. In the two most recent months, growth has persisted at these banks, as loan demand has continued strong. In addition, however, New York City banks have sold increasing amounts of such obligations during the past two months, as their loan demand--while still far less buoyant than at banks outside New York City--has shown some signs of revival.

CD offering rates have risen steadily in most maturity categories since before mid-August after drifting downward with other short-term market rates after mid-July. Market rates generally have risen a bit more rapidly, however, with rates on Treasury bills climbing at a much faster pace, and the premium on CD's as compared to the latter issues in particular has narrowed sharply across the maturity spectrum. While most of the August increase in CD's took place just before this narrowing, CD funds appear to have been readily available to banks without aggressive bidding. Given the rises in short rates, banks might have been expected to make a special effort to nail down longer term CD money. However, rates on such obligations have moved up less than those on shorter maturities, the spread between them and rates on comparable Treasury securities has in fact turned negative, and preliminary data indicate that the average maturity of CD's sold shortened further in August.

Bank credit. Total bank credit at all commercial banks (last-Wednesday-of-month series) advanced strongly at an 18 per cent annual rate during August, with growth in total loans--at an extremely rapid 26 per cent annual rate--the dominant influence. It seems likely that seasonal adjustment problems inflated the size of the increase in total loans, but even after taking this into account, loans still were by far the most important factor. Holdings of U.S. Government securities declined on a seasonally adjusted basis, probably reflecting in large part a smaller volume of new Treasury cash financing than in the corresponding month of other recent years, but holdings of other securities--mainly municipals--increased significantly. The size of the increase in holdings of other securities and the fact that it included longer- as well as short-term issues is surprising in light of the apparent strength of loan demands. The rise may reflect in part, however, some catch-up after little net change over the previous two months.

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
SOLD TO AFFILIATES 1/
(Seasonally adjusted changes at annual percentage rates)

	1971	1972			
	QIV	QI	QII	July	August
Total loans & investments 2/	11.1	15.1	7.3	10.2	18.2
U.S. Treasury securities	5.3	9.9	3.9	-13.6r	-15.5
Other securities	20.1	16.1	4.8	7.6r	10.8
Total loans 2/	9.4	15.7	8.8	16.8r	26.2
Business loans 2/	-3.4	9.6	4.3 3/	13.9	24.5
Real estate loans	14.2	14.7	16.6	16.4	18.9
Consumer loans	13.6	11.7	14.9r	12.3r	12.2

1/ Last-Wednesday-of-month series. r - Revised
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Second quarter figures have been adjusted to exclude a reclassification of loans by a major New York City bank in June.

The increase in total loans in August was influenced significantly by the increase in business loans. Even allowing for some overstatement due to seasonal adjustment problems, business loan demand clearly continues as strong or stronger than in other recent months, and consistent with this pattern, and the associated rise in short-term market rates, the prime rate charged by most banks moved up to 5-1/2 per cent late in the month. As in July, demands at New York City banks were somewhat stronger than earlier in the year, but banks outside New York City continued to account for the bulk of the business loan expansion.

Real estate loans continued to grow rapidly as in other recent months, and consumer loan growth, while below the peak pace realized in June, was nonetheless brisk. Furthermore, loans to non-bank financial institutions expanded sharply for the second month in a row, due in part to the temporary financing by mortgage bankers of mortgage inventories pending delivery to final investors under prior commitments.

Despite the strong surge in loan demand during August, bank liquidity continues high relative to the level in recent years. At weekly reporting banks in New York City, the ratio of liquid assets to liabilities,[1/] after leveling off in July, edged up further in August to a new peak. At weekly reporting banks outside New York--where loan demand has been strongest--the ratio edged down, maintaining the trend evident since the end of the first quarter, but it continues to hover about the previous highs reached early in 1971.

1/ Liquid assets include Treasury and other securities maturing in one year or less, loans to brokers and dealers and domestic commercial banks, holdings of bankers' acceptances and gross sales of Federal funds. Liabilities equals total liabilities less capital accounts, valuation reserves, and demand deposits due to banks.

Nonbank financial institutions and mortgage markets. Deposit flows to nonbank thrift institutions slowed during August from the rapid pace recorded in June and July, although the dollar volume remained substantial. In fact, savings and loan associations had a better deposit experience in August 1972 than in any previous August.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual savings banks	Savings and loan associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.8	12.8
1972 - QI	14.3	23.4	20.5
QII	11.1	16.0	14.5
June	13.2	18.2	16.6
July p/	11.4	21.5	18.4
August e/	8.2	12.3	11.1
July and August e/	9.9	17.0	14.8

p/ Preliminary.
e/ Estimated on the basis of sample data.

Total sources of funds at insured S&L's were at a record volume in the second quarter of this year. Nearly all of these funds were used to acquire mortgages, as shown in the table. Although the volume of new mortgage commitments recently has slackened somewhat, outstanding commitments reached a new high in July.

SECOND QUARTER SOURCES AND USES OF FUNDS
AT INSURED SAVINGS AND LOAN ASSOCIATIONS
(Billions of dollars, not seasonally adjusted)

	Second quarter				
	1968	1969	1970	1971	1972
Sources					
Deposit accounts 1/	2.0	1.5	2.7	7.2	7.5
Borrowed funds	.7	1.1	.5	-1.9	.5
Subtotal	2.7	2.6	3.2	5.3	8.0
Gross mortgage repayments 2/	3.7	3.8	3.4	5.9	7.8
Other sources, net 3/	-.2	.1	.1	.4	.7
Total	6.2	6.5	6.7	11.6	16.5
Uses					
Increase in liquid assets 4/	-.1	-.6	1.0	-1.1	.1
Gross mortgage acquisitions	6.3	7.1	5.7	12.7	16.4
Total	6.2	6.5	6.7	11.6	16.5
Memorandum: Detail of gross mortgage activity					
Loans closed	5.9	6.4	4.9	10.6	13.5
Loans purchased	.5	.7	.8	2.2	2.9
Refinancings (included in loans closed)	.5	.4	.4	1.3	1.4

1/ Net change in deposits, including interest credited.
2/ Includes, in addition to repayments, proceeds from sales of loans and participations and miscellaneous credits. Excludes interest, taxes, etc.
3/ Includes net changes in loans in process, reserves and surplus, and other liabilities minus the net changes in miscellaneous loans and assets not set out separately in the "uses" statement.
4/ Reflects all eligible liquid assets, according to FHLB requirements. For 1967 and 1968, includes only cash and U.S. Government securities. Since 1968, includes also Federal agency issues maturing within five years.

Commitment activity at life insurance companies also has reached record levels. Life companies are committing a large quantity of both securities and mortgages, and yet are maintaining a generous leeway between expected cash flow and takedowns of commitments. The volume of these expected takedowns--small relative to expected cash flow--leaves the industry with considerable margin even if the large expected cash flows fail to materialize.

Although deposit flows to nonbank thrift institutions have declined moderately and bond yields have moved up somewhat, no significant change in yields has appeared in the sensitive secondary market for home mortgages. In the latest (September 5) FNMA auction, yields on forward purchase commitments, at 7.63 per cent, remained close to the level that has prevailed over the past four months. While offerings of mortgages to FNMA for future delivery increased sharply, they were well below the high reached earlier this year.

In August, the average return on home mortgages again changed little, according to the FHA. In the primary market, the average contract rate on conventional loans remained at 7.65 per cent on new-home mortgages, and at 7.70 per cent on existing-home mortgages. In the secondary market, the average yield on FHA-insured new home loans edged up by 1 basis point to 7.55 per cent. In both cases, the average gross yield spread of home mortgages over new issues of high-grade corporate bonds remained relatively unattractive to diversified lenders. (Confidential until September 15.)

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Spread (basis points)	Level (per cent)	Spread (basis points)	Discounts (points)
1971 - Low	7.55	-36	7.32	-36	2.5e
High	7.95	71	7.97	56e	7.8
1972 - Jan.	7.60	53	7.49	42	4.0
Feb.	7.60	44	7.46	30	3.8
Mar.	7.55	33	7.45	23	3.7
Apr.	7.60	29	7.50	19	4.1
May	7.60	39	7.53	32	4.3
June	7.60	30	7.54	24	4.4
July	7.65	33	7.54	22	4.4
Aug.	7.65	39	7.55	29	4.5

NOTE: FHA series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 per cent ceiling rate in effect since mid-February 1971, a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new issues of high-grade corporate bonds with 5-year call protection.

e/ Estimated.

During the second quarter, the average delinquency rate on home mortgages (MBA) series) increased, contrary to its usual seasonal pattern. As a result, this measure of credit quality regained its year-earlier level of 3.27 per cent--still somewhat below the postwar high attained in the second half of 1971. Delinquency rates on problem-ridden Section 235 FHA-insured loans--on which interest rates are subsidized down to 1 per cent--continued to average more than 2 to 3 times higher than those on other types of Government underwritten home mortgages.

Short-term interest rates. Interest rates on U. S. Treasury bills have increased about 60 to 80 basis points since the August FOMC meeting, while rates on private short-term securities and bank prime rates generally have advanced 1/4 to 3/8 of a percentage point. As a result of these movements, the spread between bill yields and other short-term rates has narrowed recently.

The rapid run-up in bill yields reflected both demand and supply influences. On the demand side, the unusually heavy purchases of bills by foreign central banks and switches to bills by holders of rights in the August 15 financing--which previously had served to depress bill rates--were terminated. In addition, there has been a sharp expansion in the supply of bills that the private market has had to absorb. On August 18, the Treasury announced that the size of its monthly offering of one-year bills would be increased by $600 million for three auctions, August through October. The Treasury also raised cash over the past few weeks by running down the Exchange Stabilization Fund's holdings of Treasury bills by about $1 billion. In addition, foreign account holdings of bills were reduced by about $600 million over the period, with part of the proceeds used to finance a buildup in holdings of longer-term securities. Finally, System bill holdings have been reduced (by redemptions as well as market sales) by about $1.2 billion, mainly in order to offset a temporary rundown in the Treasury's balances at the Federal Reserve.

The tendency for interest rates to rise because of the shift in supply-demand conditions was reinforced by a firming in money market conditions during the week ending September 2 which kept the Federal funds rate above 5 per cent for three straight days and resulted in a concurrent increase in dealer borrowing costs. Money market conditions have subsequently eased, and while securities markets remain in an uncertain state, they have displayed a somewhat more comfortable tone in recent days.

At least part of the explanation for the reaction to the temporary firming in money market conditions was that the Treasury securities market was in a weak technical condition. As a result of the expanded bill supply, dealer positions in these issues were at levels well above normal. In addition, the general rise in short-term rates encouraged dealers to reduce their still rather sizable positions in longer term issues acquired in the Treasury's mid-August financing.

A preliminary estimate of the seasonally adjusted volume of commercial paper issued through dealers indicates that borrowing in this sector of the market declined about $900 million in August, after having remained about unchanged in July. Thus, part of the marginal improvement in loan demands at New York banks over this period may be the result of a shift from open market to bank financing. If such a shift has occurred, however, it was not due to an alteration in relative borrowing costs which remained essentially unchanged over the period.

SELECTED SHORT-TERM INTEREST RATES

	1972 Aug. 15	Aug. 29	Sept. 12	Basis Point Change Aug. 15-Sept. 12
Treasury bills				
3-month	3.93	4.45	4.72	79
6-month	4.47	4.94	5.08	61
1-year	4.72	5.27	5.40	68
Federal agency				
1-year	5.13	5.40	5.73	60
Commercial paper				
90-119 days	4.75	4.88	5.00	25
Large negotiable CD's 1/				
90-179 days	4.75	5.00	5.00	25
Commercial bank prime rate	5.25	5.25-5.50	5.00-5.63	25-38
	Statement Week Ended			
	Aug. 16	Aug. 30	Sept. 13 2/	Change Week ending Aug. 16 to week ending Sept. 13
Federal funds (daily average)	4.87	4.90	4.66	-21

1/ Rate is for Wednesday closest to designated date.
2/ Average for first 6 days of the week.

Long-term securities. The impact on long-term rates of rising short-term rates was greatest in the Government securities markets, where long-term yields have advanced over 30 basis points during the last 5 weeks in the aftermath of the large mid-August advance refunding.

Yields on new corporate bonds, after drifting downward throughout most of August, rose about 8 basis points in the final week of the month and currently are slightly higher than at the time of the last FOMC meeting. It is reported that corporate dealers' secondary inventories of bonds are higher than normal, and this situation may result in more upward pressure on bond yields in the immediate future, particularly if short-term rates continue to rise.

The early August decline and the end-of-month turnaround in tax-exempt yields were somewhat more pronounced than in the corporate market. The Bond Buyer Index on September 8 stood about 15 basis points higher than in mid-August. While the monthly volume of municipal offerings remains high, both commercial banks and casualty insurance companies are reported to be acquiring long-term tax-exempts at a slower pace in recent weeks. As in the corporate market, dealers appear to have been positioning rather heavily.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa[1/] corporate bonds	Long-term[2/] State and local bonds	U. S. Gov't. (10-year constant maturity)
1971			
Low	6.76 (1/25)	4.97 (11/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/20)
1972			
Low	6.86 (1/14)	4.99 (1/14)	5.87 (1/14)
High	7.42 (4/4)	5.54 (4/14)	6.22 (4/21)
Week ending:			
Aug. 4	7.27	5.32	6.14
11	7.24	5.24	6.15
18	7.22	5.22	6.18
25	7.23	5.32	6.22
Sept. 1	7.31	5.38	6.38
8	7.28	5.39	6.46p

1/ With call protection (includes some issues with 10-year protection).
2/ Bond Buyer (mixed qualities).
p/ Preliminary.
r/ Revised.

Corporate public bond offerings were relatively light in August, amounting to about $1.5 billion. The September calendar now appears to be only about $1.1 billion, the lowest since December 1971. Although sone seasonal increase in issue volume is to be expected in October, underwriters report little apparent interest in long-term public bond financing on the part of industrial corporations. The public utility industry, which normally accounts for a large proportion of public bond volume and continues to be in need of construction funds, is currently doing about half of its long-term financing through the sale of equity issues; this trend is likely to continue for the next few months at least.

Activity in the private placement market has been unusually heavy this year. The second quarter volume of takedowns was over $2.6 billion, just short of the record in the fourth quarter 1965. Insurance companies are said to be still actively seeking private placements, but the fact that yields on these securities dropped in July suggests that the institutions have not been able to satisfy their potential demand. The staff estimates that the volume of takedowns in July and August was below earlier levels, but expects some increase in September and October.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	Year 1971	1st Half 1972	July	August e/	Sept. f/	October f/
Corporate securities Total	3,758	3,483	3,100 e/	2,900	3,400	3,050
Public bonds	2,065	1,669	1,700 e/	1,500	1,100	1,400
Privately placed bonds 1/	613	707	600 e/	600	800	650
Stock	1,080	1,107	800 e/	800	1,500	1,000
State & local Government Securities	2,080	2,056	1,771	1,900	1,800	2,000

e/ Estimated.
f/ Forecast.
1/ Takedowns of funds under prior commitments.

Sales of long-term bonds by State and local governments in the summer months have remained close to the $2.0 billion monthly average issue volume during the first 6 months of this year. Issues of general obligation bonds have been tapering off, but the supply of new issues is being sustained by a growing volume of revenue bonds, including industrial pollution equipment, hospital, and community development bonds.

Federal finance. The Staff is presently projecting a $32.0 billion deficit in the Federal budget for fiscal 1973, nearly $1 billion more than in the August Greenbook. This change is attributable entirely to a reduction in the estimate of receipts based on recent shortfalls below earlier projections.

While our estimate of total fiscal year budget outlays has not changed--at $257.0 billion--the pattern of spending has been adjusted to reflect a delay in the expected enactment of the general revenue-sharing bill that would place the retroactive payment in October rather than September. In addition, the NIA figures for defense purchases have been lowered somewhat in the third and fourth quarters of calendar 1972 to reflect a technical revision in these accounts. However, considerable uncertainty has arisen with respect to defense spending in fiscal 1973 because of the cuts in defense appropriations recently made by the House Appropriations Committee. Thus far, the staff estimates have not been revised to reflect the Committee action because Congress may not go along with it and because the amount and timing of the cuts have not been determined.

As for the high employment budget, the projected shift toward deficit has been pushed forward to the fourth quarter in line with the Staff assumption that the retroactive payment of $16.0 billion (annual rate) in revenue-sharing will be made in October.

The Treasury cash balance totaled $5.0 billion at the end of August, about $1.2 billion less than estimated in the August Greenbook due to errors in projections of both receipts and expenditures. The

Treasury has managed to get by with a very low balance in tax and loan accounts in early September. A low point of $1.4 billion in the combined tax and loan and Federal Reserve balance was reached on September 11, but because of technical limitations on Treasury calls of tax and loan balances, the Treasury had a small overdraft-- $38.0 million--at the Federal Reserve on September 12. Over the rest of September the combined balance is expected to rise, particularly after the mid-month tax date, reaching a level of about $9.5 billion by month's end. No further market borrowing is expected in September.

Looking further ahead, Treasury net cash borrowing is expected to total about $11 billion in the fourth quarter. The first major instalment of this financing--totaling about $4.0 billion--is likely to be needed in the latter part of October assuming the retroactive payment of revenue-sharing follows the pattern indicated above.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Aug.	Sept.	Oct.	Nov.	Dec.
Total net borrowing	1.1	0.7	5.2	2.8	3.2
Weekly and monthly bills	1.0	--	1.2	0.1	--
Tax bills	--	--	--	--	--
Coupon issues	--	--	--	--	--
As yet unspecified new borrowing	--	--	4.0	4.0	4.5
Special issues to foreigners	-.3	.2	--	--	--
Agency transactions, debt repayment, etc.	.4	.5	--	-1.3	-1.3
Plus: Other net financial sources a/	-1.0	0.7	1.3	-.9	-1.0
Plus: Budget surplus or deficit (-)	-4.1	3.1	-10.0	-3.9	-0.1
Equals: Change in cash balance	-4.0 b/	4.5	-3.5	-2.0	2.1
Memoranda: Level of cash balance end of period	5.0 b/	9.5	6.0	4.0	6.1
Derivation of budget surplus or deficit:					
Budget receipts	17.9	23.2	14.6	17.6	19.3
Budget outlays	22.0	20.1	24.6	21.5	19.4
Maturing coupon issues held by public c/	2.3	1.8	--	2.1	2.3
Net borrowing by gov't-sponsored agencies	-0.1	0.1	-0.3	*	0.6

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ In the refunding, $1.7 billion and $1.3 billion, respectively, were exchanged for the August and September maturities, leaving $600 million and $500 million to be redeemed in cash. Of the November and December maturities, $.9 billion and $1.1 billion were exchanged, leaving $1.3 billion and $1.2 billion to be redeemed in cash.
* Less than $50 million.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal Year 1972*	Fiscal 1973e/ Mid-year Review	Fiscal 1973e/ F.R. Board	Calendar Year 1972 1/	Calendar Quarters F.R.B. Staff Estimates 1972 I*	1972 II*	1972 III	1972 IV	1973 I	1973 II
Federal Budget					Unadjusted data					
Surplus/deficit	-23.0	-27.0	-32.0	-23.1	-10.5	5.8	-4.4	-14.0	-14.5	0.9
Receipts	208.6	223.0	225.0	223.2	48.1	67.3	56.3	51.5	51.2	66.0
Outlays	231.6	250.0	257.0	246.3	58.6	61.5	60.7	65.5	65.7	65.1
Means of financing:										
Net borrowing from the public	19.4	n.a.	27.9	14.6	3.9	-6.0	5.5	11.2	10.7	0.5
Decrease in cash operating balance	-1.3	n.a.	3.1	5.2	3.6	-2.4	0.6	3.4	1.1	-2.0
Other 2/	4.9	n.a.	1.0	3.3	3.0	2.6	-1.7	-.6	2.7	0.6
Cash operating balance, end of period	10.1	n.a.	7.0	6.1	7.7	10.1	9.5	6.1	5.0	7.0
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	2.3	.4	1.2	0.3	0.3	n.e.	n.e.
National Income Sector					Seasonally adjusted, annual rates					
Surplus/deficit	-22.1	n.a.	-35.9	-25.0	-14.8	-21.1	-18.1	-46.1	-38.9	-40.5
Receipts	211.0	n.a.	230.4	226.2	221.4	225.4	225.7	232.1	233.6	230.1
Expenditures	233.1	n.a.	266.3	251.2	236.3	246.5	243.8	278.2	272.5	270.6
High employment surplus/deficit (NIA basis) 1/	4.0	n.a.	-18.2	-5.3	8.6	-2.4	1.5	-28.8	-21.3	-24.3

*Actual e--projected n.e.--not estimated n.a.--not available
1/ Estimated by F.R. Board Staff.
2/ Includes such items as deposit fund accounts and clearing accounts.
3/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

INTERNATIONAL DEVELOPMENTS

III -- T - 1

U.S. Balance of Payments

(In millions of dollars; seasonally adjusted)

	1971	1972p/			
	Year	QI	QII	June*	July*
Goods and services, net 1/	726	-1,174	-1,547		
Trade balance 2/	-2,689	-1,673	-1,929	-572	-589
Exports 2/	42,770	11,809	11,463	3,892	3,984
Imports 2/	-45,459	-13,482	-13,392	-4,464	-4,573
Service balance	3,416	499	382		
Remittances and pensions	-1,530	-389	-377		
Govt. grants & capital, net	-4,422	-944	-652		
U.S. private capital (- = outflow)	-9,782	-3,261	-145		
Direct investment abroad	-4,765	-1,266	-200		
Foreign securities	-909	-393	-344	-272	83
Bank-reported claims -- liquid	-566	-518	319	-164	-569
" " " other	-2,372	-765	99	-86	-186
Nonbank-reported claims -- liquid	-506	-195	60	-4	
" " " other	-664	-124	-79		
Foreign capital (excl. reserve trans.)	-4,551	1,484	2,757		
Direct investment in U.S.	-68	-360	346		
U.S. corporate stocks	849	695	164	31	21
New U.S. direct investment issues	1,161	296	747		
Other U.S. securities (excl. U.S. Govt.)	272	76	29		
Liquid liabilities to:	-6,691	551	1,162	835	-1,366
Commercial banks abroad	-6,908	476	945	588	-1,338
Of which liab. to branches 3/	(-4,942)	(-200)	(-559)	(-3)	(-559)
Other private foreigners	-465	53	292	202	21
Intl. & regional institutions	682	22	-75	45	-49
Other nonliquid liabilities	-74	226	309		
Liab. to foreign official reserve agencies	27,422	2,827	1,094	1,051	4,836
U.S. monetary reserves (increase, -)	3,065	607	-53	6	249
Gold stock	866	544	--	--	--
Special drawing rights 4/	468	--	7	--	--
IMF gold tranche	1,350	-1	185	-6	-5
Convertible currencies	381	64	-245	12	254
Errors and omissions	-10,928	850	-1,077		
BALANCES (deficit -) 4/					
Official settlements, S.A.		-3,434	-1,041		
" " , N.S.A.	-30,487	-3,221	-762	-1,057	-5,085
Net liquidity, S.A.		-3,272	-2,582		
" " , N.S.A.	-22,724	-3,041	-3,219	-1,724	
Liquidity, S.A. 5/		-3,985	-2,203		
" , N.S.A.	-23,796	-3,810	-2,924	-1,892	-3,719

* Monthly, only exports and imports are seasonally adjusted.

1/ Equals "net exports" in the GNP, except for latest revisions.

2/ Balance of payments basis which differs a little from Census basis.

3/ Not seasonally adjusted.

4/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.

5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook. After reaching a peak deficit of $5.1 billion for the month of July, the official settlements balance of payments registered diminishing weekly deficits during August -- probably totaling under $1 billion for the month. (Both figures would be somewhat smaller on a seasonally adjusted basis.) In the early days of September a small surplus was registered. Measured on the liquidity basis, the July deficit was about $3.7 billion -- smaller than the official settlements deficit because liabilities to foreign branches and other foreign commercial banks were reduced; in August the liquidity deficit was probably a bit larger than the official settlements deficit.

The dollar strenghtened in the exchange markets after mid-July as the Federal Reserve intervened in the market, with considerable psychological effect, in support of the Smithsonian rate structure. Over-sold positions on the dollar were probably whittled down, and major currencies that had been at their ceilings moved toward their central rates. Over this period, Japan has been the only major industrial country with a large intake of dollars. More recently, a rise in short-term interest rates in the United States relative to rates abroad has also contributed to the market strength of the dollar.

Preliminary data for the second quarter show a marked improvement in the balance on current account and long-term capital, but this consisted primarily of a sharp change in the behavior of private capital flows, which is unlikely to persist, and a bunching up of payments by some countries for future deliveries of military goods. The shift in recorded private capital flows included an extraordinary drop in U.S. direct investments abroad, a turn to large net inflows of foreign direct investment capital, and a reversal of the first quarter increase in banking claims on foreigners. The latter inflows largely reflect encouragement of reflows by the Japanese authorities.

The balance on goods and services worsened from the first to the second quarter, and is projected to register large, but diminishing, deficits for quite some time. Somewhat stronger gains now expected in the U.S. economy will raise imports and tend to offset the benefits to exports from the sustained economic upturn that is in progress in other industrial countries. Currently there is rising apprehension in Europe -- especially in Germany -- about inflationary pressures. To the extent this leads to the adoption of measures of fiscal and monetary restraint in some countries, the outlook for gains in the U.S. trade balance next year would be clouded, and financial flows would also be less favorable.

Foreign exchange and Euro-dollar markets. The dollar generally strengthened against major foreign currencies over the past month. Intervention by major foreign central banks has been minimal except in the case of the Bank of Japan. That bank purchased $721 million in market intervention in August, and thus far in September has purchased another $188 million. Despite these large intervention purchases

Japanese official reserves have grown by smaller amounts ($488 million in August) as a result of that government's "recycling" of its dollar intake. One method used has been government dollar deposits with Japanese banks, leading to short-term capital exports by those banks.

SPOT EXCHANGE RATES
percent over (under -) par;
(average for week ending Wednesday)1/

	May 31	June 28	July 26	Aug. 23	Aug. 31	Sept. 6	Sept. 13
Sterling	0.3	-3.3	-6.0	-6.0	-6.1	-6.0	-6.1
Canadian dollar	10.0	10.3	9.9	10.1	10.0	10.0	9.9
German mark	1.4	2.0	1.7	1.0	1.0	1.0	1.1
Swiss franc	-0.3	2.5	1.8	1.5	1.6	1.6	1.6
Dutch guilder	1.1	1.9	1.6	1.0	0.8	0.6	0.6
Italian lira	0.1	-1.4	0.1	0.0	0.1	0.1	2.3
French franc	2.2	2.0	2.3	2.3	2.3	2.3	2.1
Belgian franc	2.1	2.0	2.3	2.2	2.1	2.1	0.1
Japanese yen	1.3	4.4	2.4	2.4	2.4	2.4	2.3

1/ Parities used are the central rates announced after December 18, 1971; except for the Canadian dollar for which the parity in effect in May 1970 is used.

Among the factors tending to support the dollar in the exchanges in the face of a continued large U.S. basic balance deficit were the System's intervention in the exchange markets to support the dollar (discussed in detail in the Special Manager's Report on System and Treasury Operations in Foreign Exchange) and, more recently, the rise in short-term interest rates in the United States. The intervention had a strong favorable impact on market confidence and, together with the effect of some rise in U.S. interest rates, has probably induced some reversal of speculative positions.

The rise in U.S. short-term interest rates in recent weeks, together with smaller rises in national money market rates abroad, has tended to firm Euro-dollar interest rates (though in the most recent week both U.S. and Euro-dollar rates have softened a bit).

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)(*)		(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differ-ential (4)-(5)(*)	
1972 - Mar.	3.87	3.83	0.04	(1.01)	5.05	3.80	1.25	(2.51)
Apr.	3.92	4.17	-0.25	(0.73)	4.72	4.44	0.28	(1.46)
May	3.79	4.27	-0.48	(0.47)	4.25	4.21	0.04	(1.10)
June	4.07	4.46	-0.37	(0.65)	4.82	4.50	0.32	(1.53)
July	5.20	4.55	0.65	(1.95)	5.34	4.72	0.62	(1.96)
Aug.	4.47	4.80	-0.33	(0.79)	5.18	4.73	0.45	(1.75)
Aug. 2	7.25	4.56	2.69	(4.50)	5.40	4.61	0.79	(2.14)
9	4.20	4.69	-0.49	(0.56)	5.00	4.61	0.39	(1.64)
16	4.99	4.87	0.12	(1.37)	5.13	4.74	0.39	(1.67)
23	4.69	4.75	-0.06	(1.10)	5.29	4.79	0.50	(1.82)
30	4.46	4.90	-0.44	(0.68)	5.31	4.88	0.43	(1.76)
Sept. 6	4.65	4.89	-0.24	(0.92)	5.33	4.93	0.40	(1.73)
13p	4.34	4.66	-0.32	(0.76)	5.26	4.93	0.33	(1.65)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.

2/ Effective rate.

3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.

*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 percent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).

p/ Preliminary.

The overnight rate moved back below the Federal funds rate after having exceeded it in late July and early August, and differentials between one- and three-month Euro-dollars and comparable maturity U.S. bank CD's declined. Liabilities of U.S. banks to their foreign branches continued to average close to the banks' reserve-free bases, amounting to about $2 billion.

Balance of payments. The official settlements balance in the weeks of August showed diminishing deficits, and a small surplus was registered in the early days of September. For the month of August the deficit is estimated at less than $1 billion. This sharp recovery from the $5.1 billion deficit in July reflected the easing of speculative tensions after the exchange market interventions by the System that began on July 19, with strong psychological effect, and some relative tightening of short-term interest rates in the United States in the course of the month. No data are yet available for current account or private capital flows during the month, but the improvement in the over-all balance most likely reflected a return flow of short-term capital and an unwinding of leads and lags that built up in the aftermath of the sterling crisis in late June and into July.

More complete data for the second quarter balance of payments show some surprisingly erratic behavior in the long-term capital accounts, adding to the difficulties of interpreting the current situation. Outflows of U.S. private long-term capital dropped by $1.0 billion between the first and second quarters, mainly because direct-investment outflows fell to only $200 million, far under usual second-quarter rates. There is as yet no explanation of this decline. Meanwhile the net inflow of foreign private long-term capital rose

SUMMARY U.S. BALANCE OF PAYMENTS
(millions of dollars, seasonally adjusted)

	1972		
	IQ^{r}	IIQ^{r}	Change
Current account	-1,563	-1,924	-361
(trade balance)	(-1,673)	(-1,929)	(-256)
U.S. Govt. grants and credits	-944	-652	+292
U.S. long-term private capital, total	-1,914	-904	+1,010
Direct investments	-1,266	-200	+1,066
Foreign securities	-393	-344	+49
Other	-255	-360	-105
Foreign long-term private capital, total	837	1,563	+726
Direct investments	-360	346	+706
U.S. securities (excl. Treasury issues)	1,067	940	-127
Other	130	277	+147
Total current account and long-term capital	-3,584	-1,917	+1,667
U.S. private short-term capital	-1,347	759	+2,106
Bank-reported	-1,106	773	+1,879
Other	-241	-14	+227
Foreign private short-term capital	647	1,194	+547
Errors and omissions	850	-1,077	-1,927
Official settlements balance	-3,434	-1,041	+2,393

by \$.7 billion, almost entirely reflecting a return flow of funds remitted from the U.S. in the first quarter by U.S. affiliates of Japanese trading companies. Another favorable factor in the second quarter was a one-time rise in advance payments by a few foreign governments for military deliveries -- reducing the aggregate net outflow for U.S. Government grants and credits.

These swings in flows of capital rather arbitrarily defined as "long-term" served to reduce the basic deficit (the sum of current account and long-term capital transactions) to an annual rate of about \$8 billion, from a \$14 billion rate in the first quarter. In the present quarter the current account balance is probably improving, but not by as much as the likely rise in net outflows of long-term capital, so that the "basic" deficit may be closer to the first half rate of \$11 billion.

The big favorable shift in recorded flows of short-term capital between the first and second quarters had already been indicated by earlier reports. In July, however, there was again a large net increase in bank-reported claims on foreigners. Moreover, the large negative errors and omissions now appearing in the second quarter accounts very likely reflects unrecorded outflows in the last part of June which continued into early July, swelling the deficit in that month. The improvement in the over-all balance since early August indicates that some reversal of short-term flows is occurring.

U.S. foreign trade. The U.S. trade deficit in July was virtually unchanged from those of the two preceding months as both exports and imports increased by the same amounts from June to July. The deficit in May-July was at an annual rate of $7.1 billion (balance of payments basis), down only moderately from the very high $7.9 billion deficit rate recorded in the months of February-April. The value of exports in May-July was about 3-1/2 percent greater than in the earlier three-month period; almost all of the increase was in volume as prices (unit-values) rose only very slightly. The value of imports rose by 1.5 percent but imports fell in volume terms as prices rose by 2 percent.

The July trade figures reaffirm our earlier impression that the commodity structure of imports has shifted, with the major element of strength now in imports of industrial materials and foods, whereas imports of finished goods -- automobiles and other consumer goods, capital equipment -- which were rising in the early months of the year, have fallen off. Virtually all of the increase in the value of imported industrial materials -- steel and other metals plus further advances in petroleum and lumber -- was in real terms. However, higher prices accounted for most of the rise in the value of imported foodstuffs -- particularly coffee and meat -- as worldwide demands exceeded supplies.

Imports of automobiles from Europe and Japan declined significantly in June and July, reflecting a downward adjustment in inventories which had been built up in the earlier months of the year as new models were introduced. Sales of these cars in the U.S. have held steady this year at an annual rate of about 1-1/2 million units, although sales in August rose somewhat. The share of these cars in total U.S. car sales, however, has dipped below the 15 percent posted in 1971. Although imports of automobiles from Canada have also declined in May-July, entries of these "North-American" type of cars have remained at a high level as total domestic car sales have surged.

The value of imports of other nonfood consumer goods -- both durable and nondurable -- as well as capital equipment have all declined in the last three-month period despite further rises in prices of these goods. It is possible that the effect of the revaluation of currencies may be beginning to take hold, although the seamen's 90-day strike in Japan, which ended in mid-July, as well as the "voluntary" agreement on textiles, may be in part responsible for the slowdown in these imports.

The <u>export</u> rise in May-July stemmed primarily from a continued expansion in shipments of agricultural products, particularly grains and soybeans. A further rise in exports of these commodities can be expected as shipments of the $1 billion of grains sold to the Soviet Union (about one-half of which is on CCC credit) begin to move out in heavy volume in the next few months. Shipments of automobile parts to Canada also rose sharply in May-July as car output there (mostly for sale in the United States) expanded. A feature of July exports was an increase in shipments of machinery and nonagricultural materials (chemicals and metals) which had been flat since February. Exports to Western Europe, which had been extremely weak in the first half of the year, also rose sharply in July.

The reported U.S. share of world trade in manufactured goods in the first and second quarters of this year, compared with year-earlier periods, appears to have declined very sharply. However, this decline is probably largely artificial, resulting from the immediate conversion of the export figures of foreign countries from national currencies to dollars at the new appreciated exchange rates, even though it is unlikely that their actual proceeds responded so quickly. When the share computation is made on the basis of the pre-Smithsonian exchange rates, the U.S. share in world trade of manufactured goods decreased only slightly.

Economic conditions abroad. The business climate has continued to strengthen in virtually all industrial countries since the beginning of this year. However, recoveries are at various stages and the amount of unused capacity differs considerably among countries. The upswing in the United States, Canada and, earlier this year, in Britain, has been sufficiently strong to absorb some unused capacity. In other countries the acceleration in the pace of economic activity has been sufficient only to bring them back to near trend growth, so that there has been little or no absorption of unused capacities; Belgium, France and the Scandinavian countries would fall into this group. However, in most of these countries, and particularly in France, economic activity in the preceding months had not fallen much below trend, so that the amount of underutilized resources was rather small. This is also the case for Germany where growth rates, although on the uptrend, still remain below trend rates, and where, in fact, growth in industrial output at least, has leveled off since last spring. In Japan, where underutilization of resources is substantial, the upturn also has not as yet broadened out sufficiently to absorb these resources.

There is little doubt that by end of the year most economies will be expanding at -- or above--trend rates. In the case of Italy, the Netherlands and the United Kingdom, however, this is less certain. In Italy, underlying economic conditions remain weak and continue to be influenced by political/social disturbances. In the Netherlands, there has been a pickup in economic activity after the slowdown last year, but the government's concern about the unabatedly high rates of inflation may well lead to restrictive measures designed to keep the upturn from accelerating too fast. In the United Kingdom, there are signs that the recovery may be less broad-based than appeared this spring as fixed investment expenditures have continued to fall.

In virtually all cases, the faster pace of activity has not been accompanied by significant reductions in the relatively high rates of unemployment that existed towards the end of last year. In some instances, such as in France, this is related to structural changes, but in most cases it is related to the high productivity increases that accompany the early stages of an economic upturn.

Although there has been a slowing in the rate of price increases, as measured by the GNP deflators, there is concern in many countries that with the resumption of growth, this deceleration may come to an early end. This concern appears particularly strong in Germany, though the evidence of an acceleration in price increases is not conclusive. In Canada and the United Kingdom, price rises have begun to accelerate again, while in a number of Scandinavian countries and the Netherlands, the evidence points towards continued high inflationary pressures. All of these latter countries have used price and wage policies actively in the past, and some continue to have restraints in force.

As the current outlook points to continued economic acceleration in most countries, policy concern is shifting from preoccupation with slack demand to concern about the resumption of inflationary pressures. Therefore, in some continental European countries the period of generally expansionary or permissive policy posture, which characterized the past several quarters, may well be past, and at least in some cases, restraints may reappear at rather early stages of the recovery.

The Canadian economy has been experiencing a period of rising expansion since the 1970 recession. From 1970 to 1971 real GNP increased at a rate of 5.5 per cent. Between the first half of 1971 and the first half of 1972 the rate of output growth accelerated to about 6-1/2 per cent.

Price trends have been mixed. The rate of increase in consumer prices decelerated from 4.9 per cent in January 1972 over January 1971 to 4.5 per cent in July 1972 over July 1971, but there was a slight acceleration in the rate of increase in general wholesale prices during the first half of this year.

The demand for business loans has been strong and banks' excess cash reserves are relatively low. Short-term interest rates have increased only slightly since the first of the year, but long-term yields have turned up sharply as chartered banks have sold a significant part of their holdings to finance growing loan demand.

Fiscal and monetary policies in Canada have been expansionary in order to support the recovery and to reduce unemployment. Although the rate of unemployment has declined from almost 7 per cent to about

6 per cent, the level is still embarrassingly high for the Government, which faces an election on October 30. The federal budget, which was presented in June, is very expansionary, and includes provisions for an acceleration of depreciation allowances for industry and a reduction in the profits tax.

The recovery of the British economy, which became apparent last spring, is primarily driven by increased consumer spending and secondarily by rising exports. Private investment spending, however, fell short of earlier expectations and was down 7 per cent in the first half of this year as compared with the second half of 1971. Thus, the recovery seems somewhat less broad-based than had been hoped. Nevertheless, the upturn in output in the second quarter of this year reflected more than a make-up for the decline in the first quarter due to the coal strike, bringing real GDP in the first half of 1972 to a level 0.8 per cent above the second half of 1971.

Monetary policy has been easy, as evidenced by the relatively fast expansion in the money stock. The Bank of England seems reluctant to slow down the rate of monetary expansion, apparently fearing interest rates might rise further above the presently high levels.

In July the Confederation of British Industry announced a three-month extension, through the end of October, of its voluntary price restraint policy. Hundreds of firms, including a large proportion of major firms, have agreed to limit price increases in the year ending October 31, 1972, to an average of 5 per cent. In July wholesale and retail prices were both about 6 per cent higher than a year earlier. With average earnings rising at an annual rate of 9-10 per cent, real earnings have generally increased. Wage rates are rising faster than average earnings, the gap reflecting continued, albeit diminishing, hours of short-time work.

One of the Government's main policy goals since March has been to improve the wage-price environment by encouraging cooperation among the employers, unions and the Government through voluntary price restraints, tri-partite talks and studies of relevant issues. The Government thereby hopes to avoid the more formal, statutory, wage and price program urged upon it by some outside observers.

In Germany, the economy is recovering from the slowdown which began in 1970 and extended through 1971. Industrial production, though flat in recent months after a sharp first-quarter upturn, was 2.3 per cent higher in May-July than in the same period last year and 4.2 per cent above the fourth quarter 1971 low. According to government forecasts, real GNP is expected to increase at a seasonally adjusted annual rate of 5.5 per cent in the second half of this year.

All major GNP components appear to have contributed to the economy recovery, the largest proportionate increase from the second half of 1971 to the first half of 1972 being in construction activity.

With the pick-up in the economy, the Government is now giving top priority to measures to prevent a further acceleration of the rate of inflation. The rate of increase in consumer prices has accelerated, rising at a seasonally adjusted annual rate of 4.1 per cent from the fourth to the first quarter, and by 5.6 per cent from the first to the second quarter. Prices also rose sharply in July. On the other hand, there has been some deceleration in the rate of increase in the prices of producers' industrial products. One measure which the Government has taken is the cancellation of its plan to spend DM 4 billion this year in "anti-cyclical reserve" funds. Furthermore, in order to slow capital inflows and to offset the liquidity-increasing effect of these inflows, the authorities in May-July, increased bank reserve requirements, reduced rediscount quotas for banks, increased cash deposit requirements on non-bank borrowing from abroad, and imposed direct controls over bond sales to non-residents.

Short-term interest rates have generally declined this year, although there was some upward movement in August. Long-term rates have fluctuated considerably, but were not significantly different at the end of August from their levels at the beginning of the year.

In France, the pace of economic activity slowed somewhat in the latter part of 1971 and early 1972, but appears to have picked up again since last spring. Industrial production increased at a seasonally adjusted annual rate of around 6 per cent during the first half of 1972, somewhat below the 7.8 per cent increase in 1971. Real Gross Internal Product (a French equivalent of Gross Domestic Product less services of government employees and domestic servants) rose 5.2 per cent in 1971 from 1970 and only a fractionally higher increase is expected this year. These growth rates are below the 6 per cent target set in the Sixth Economic Plan, but next year's increase is expected to be much nearer the target rate, with faster growing exports and fixed investment expenditures providing the extra strength.

A stimulative fiscal policy during the first half of this year helped to prevent a progressive slowdown in economic activity. Public investment outlays were accelerated (from an increase of 2.9 per cent in real terms in 1971 to an estimated 6.3 per cent in 1972), and enterprises' value-added tax payments were reduced.

Partly in response to an easing of monetary policy earlier this year, interest rates have declined. Both short-term rates in the money market and bond yields have decreased since January or February. Price controls were eased in the spring of this year, even though retail prices are expected to rise at the relatively rapid rates of 5-1/2 per cent this year and 5 per cent next year, as compared to a 5.4 per cent increase in 1971 over 1970.

In Italy, industrial production increased in the second quarter of this year, rising 2 per cent between March and June. Last fall production had increased sharply, but then declined from December through March. Despite the pickup in the second quarter, output in June was still 0.7 per cent below the December-January level, and in the first half of 1972 was only 2 per cent higher than a year earlier. Building activity has been running below the 1971 level.

Private investment remains depressed, and businessmen are apprehensive that this fall's new round of wage negotiations will force new increases in unit labor costs. Private consumption is sluggish. The only sectors providing stimulus to the economy are the public sector and exports, the latter of which were up 18 per cent (valued in lire) in the first half over the comparable 1971 period.

Monetary conditions have been eased still further in recent months and bond yields have continued to fall quite rapidly. The central government's cash deficit is still expected to widen sharply this year. Although the increase in public investment has been revised downward, social security pensions were increased effective July 1. Despite weak aggregate demand, the rise in consumer prices has accelerated in recent months. In June, consumer prices were 5.5 per cent above June 1971.

In mid-August the Government revised downward its forecast for the gain in real GNP this year over 1971 from 4.8 per cent to 4.3 per cent, mainly because of the lower forecast for public investment. Even the 4.3 per cent figure seems optimistic, however, and a 3 per cent rise now seems a realistic expectation.

The Belgian economy has been experiencing a cyclical upturn since about the beginning of the year. Industrial production rose at a seasonally-adjusted annual rate of 8-1/2 per cent during 1971 (fourth quarter to fourth quarter).

Private consumption has been rising more rapidly in 1972. By the beginning of the year the depressing effect on purchases of consumer durables caused by the introduction of the TVA in January 1971 had worn off. Consumption was also buoyed by increased confidence following the end of 1971.

Exports and the budget are the other two sources of strength. The value of exports (in Belgian francs) has been rising much faster since the beginning of 1972 than it did during 1971. The 1972 budget, drawn up in January, was designed to speed recovery by providing for much larger increases in both ordinary and extraordinary expenditures than in the immediately preceding years, with a consequent large increase in the deficit.

Plant and equipment expenditures (in real terms) for 1972 as a whole are expected to be about 3 per cent below the 1971 level. The 1972 rise in real GNP is projected at 3.8 per cent, only fractionally above the 1971 rise. But officials expect economic activity to be rising fast enough in 1973 to warrant a restrictive budget, which is now in preparation.

After considerable sluggishness in 1971, the Netherlands economy is now in a period of recovery and economic growth has been above earlier expectations. Industrial production increased at a seasonally adjusted annual rate of only 3.6 per cent between the first and fourth quarters of last year, but then rose at an amazing 17 per cent annual rate from the fourth quarter of last year to the first quarter of this year and at an 8 per cent rate for the first to the second quarter of this year.

The primary policy goal of the Government has been to slow the rate of inflation, but so far it has not been successful. Consumer prices rose at an annual rate of 9 per cent between the fourth quarter of 1971 and the second quarter of this year, or at about the same rate as in the same period a year earlier.

Monetary conditions have been easy due mainly to a large inflow of funds in the first quarter and again in July. As a result, short-term interest rates have declined to below 1 per cent for call money. On September 8 the Netherlands Bank reduced its discount rate from 4 to 3 per cent in a technical move aimed at bringing its discount rate into line with market rates. No basic easing of monetary conditions was intended since the Netherlands Bank at the same time announced measures designed to tighten monetary conditions. New reserve requirements were imposed upon the commercial banks, and the Bank also plans to carry out restrictive open market operations.

In the Scandinavian countries economic recovery is generally underway following recessionary conditions in 1971. In Denmark, the economic recovery has been spurred by increases in domestic consumption and residential construction, as well as by an increase in exports. Economic recovery in Sweden from the November-December 1971 low, has been aided by new orders, especially for export goods. In Finland, where the rate of economic growth in 1971 was the slowest in a decade, economic activity is currently recovering under the stimulus of an expansionary budget policy. Norway, on the other hand, experienced only a slight slowdown last year, and with currently weak consumer demand, this trend is continuing into 1972. Consequently real GNP is expected to grow by 4.5 per cent this year over 1971, as compared to 4.8 per cent last year.

Economic recovery in Japan appears to be well underway. Industrial production has been increasing since last November and through June rose at a seasonally adjusted annual rate of 14 per cent. Between the third quarter of 1970 and August-October of 1971, industrial production had increased only by 3.4 per cent. Real GNP rose at a seasonally adjusted annual rate of 11.6 per cent in the first quarter of this year, in contrast with a 6.3 per cent increase in calendar 1971 over the previous year. During the late 1960's real GNP increased each year at a rate of about 12 per cent.

Monetary policy has continued to remain relatively easy in Japan, with businesses and banks experiencing an excess of liquidity. Interest rates have declined substantially, with both the call loan rate and the Bank of Japan's basic discount rate being at a record low of 4.25 per cent. Price trends have been mixed, with wholesale prices in July being 1.0 per cent higher than the previous low in January, but consumer prices rising at a 12-month rate of about 5 per cent in July, down from the 7 per cent rate of a year earlier.

One of Japan's major policy objectives--moderation of the balance of payments surpluses without another yen revaluation--is being partly pursued through a multi-action program to open up Japan's banking and securities markets to overseas borrowers, as well as to promote direct and portfolio investment abroad. Also, at the recent summit meeting in Hawaii, the Japanese authorities agreed to accelerate their payments for purchases of about $1.1 billion in U. S. goods and services and to help remove non-tariff obstacles to the growth of imports.

Japanese economic recovery is expected to continue this year and next, with real GNP increasing at a rate of about 8 to 9 per cent in 1972 compared to 1971.

APPENDIX A: LOAN COMMITMENT SURVEY*

The results of the July 31 Quarterly Survey of Loan Commitments indicate that the volume of unused commitments outstanding at the forty-two responding banks increased about 5 per cent since the end of April -- a moderate rate of growth by historical standards. (See Table 1A.) All major categories of unused commitments shared in the growth, although, as would be expected, commitments to commercial and industrial firms recorded the largest increase. Commitments to nonbank financial institutions showed greater strength than in the previous survey, and commitments for real estate mortgages continued to grow at a rapid pace.

A high level of takedowns, expirations, and cancellations and a large volume of new commitment extensions are recorded in the current survey. (See Tables 1B and 1C.) Much of this activity may be explained by summer reviews of credit lines where bankers renew expiring commitments.

Recent data also reflect considerable activity in commitments for term lending (Tables 1A, 1B, 1C). Newspaper reports indicate that banks recently have been trying to expand such lending. For example, some banks have emphasized "cap loans," whereby the interest rate on term loans disbursed under a commitment would be kept at some fixed relation to the prevailing prime rate, but the average interest cost over the life of the loan is guaranteed not to exceed some maximum. Nonetheless, increasing activity in commitments for term loans has not as yet been translated into increased proportions of term loans in bank loan portfolios.

More than half of the respondents note continued optimism about loan demand during the next three months with 26 banks anticipating an increased level of takedown activity. Notwithstanding these expectations of increased takedowns, banks were virtually unanimous in maintaining previously established commitment policies. (See Table 2.)

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* Prepared by Marilyn Barron, Research Assistant, Banking Section, Division of Research and Statistics.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1A UNUSED COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
UNUSED COMMITMENTS	75.7	5.3	71.9	2.3	70.3	5.0	66.9	2.9	65.1	4.7	62.1	6.4	58.4	6.8	54.6	9.2
C & I FIRMS	57.2	5.1	54.4	2.4	53.2	3.9	51.1	2.4	50.0	5.3	47.4	6.5	44.5	6.6	41.7	8.2
NONBK FINAN INSTS	13.7	4.8	13.1	0.9	13.0	6.7	12.2	4.1	11.7	3.3	11.3	3.0	11.0	7.3	10.3	14.5
REAL ESTATE MORTG	4.7	8.9	4.4	5.9	4.1	13.6	3.6	6.2	3.4	1.1	3.4	18.0	2.9	8.3	2.6	4.9
MEMO: CONSTRUCTION LOANS INCL ABOVE	3.8	8.7	3.5	8.2	3.2	9.2	2.9	1.0	2.9	5.5	2.7	18.8	2.3	6.7	2.2	1.9
COMMERCIAL & INDUST FIRMS																
TERM LOANS	2.5	12.7	2.3	5.2	2.1	-6.6	2.3	19.9	1.9	6.9	1.8	16.9	1.5	5.4	1.4	10.9
REVOLVING CREDITS	14.1	4.9	13.4	-3.8	14.0	2.7	13.6	1.9	13.3	3.0	12.9	1.2	12.8	7.4	11.9	12.1
TOT: TERM & REV *2	17.2	6.3	16.2	-3.0	16.7	1.2	16.5	3.9	15.9	3.2	15.4	1.5	15.1	8.4	14.0	10.6
CONFIRMED LINES	35.9	4.8	34.2	4.7	32.7	5.6	31.0	1.7	30.4	5.2	28.9	8.5	26.7	5.9	25.2	8.7
OTHER COMMITMENTS	4.1	3.2	4.0	5.4	3.8	2.3	3.7	1.4	3.6	17.7	3.1	15.4	2.7	4.9	2.6	-7.4
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	8.3	1.6	8.1	0.7	8.1	5.8	7.7	5.2	7.3	1.9	7.1	0.0	7.1	6.9	6.7	19.6
MTGE WAREHOUSING	2.2	8.2	2.0	5.1	1.9	2.7	1.9	5.0	1.8	10.6	1.6	-1.6	1.6	9.6	1.5	5.5
ALL OTHER	3.3	11.4	2.9	-1.1	3.0	12.2	2.6	0.2	2.6	2.6	2.6	16.0	2.2	6.7	2.1	6.7
REAL ESTATE MORTGES																
RESIDENTIAL	2.0	12.0	1.8	13.5	1.6	16.6	1.3	13.7	1.2	12.3	1.0	17.7	0.9	10.7	0.8	7.7
OTHER	2.8	6.8	2.6	1.3	2.6	11.8	2.3	2.3	2.2	-4.0	2.3	18.2	2.0	7.2	1.8	3.7

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR IN FIGURES DUE TO ROUNDING. **

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1B NEW COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
GRAND TOTAL																
NEW COMMITMENTS	36.6	35.4	27.0	15.6	23.4	10.3	21.2	-39.4	35.0	43.0	24.5	16.0	21.1	38.9	15.2	-30.3
C & I FIRMS	28.1	38.2	20.4	12.0	18.2	8.5	16.8	-38.7	27.4	45.2	18.9	17.7	16.0	38.3	11.6	-31.8
NONBK FINAN INSTS	6.2	32.8	4.7	30.2	3.6	25.5	2.9	-48.1	5.5	37.8	4.0	6.4	3.8	47.3	2.6	-33.2
REAL ESTATE MORTG	2.2	12.3	1.9	23.9	1.6	1.9	1.5	-24.9	2.1	29.7	1.6	22.9	1.3	24.1	1.0	7.6
MEMO: CONSTRUCTION LOANS INCL ABOVE	1.3	10.0	1.2	11.7	1.1	4.8	1.0	-24.2	1.4	16.4	1.2	21.8	1.0	19.6	0.8	2.5
COMMERCIAL & INDUST FIRMS																
TERM LOANS	3.6	60.3	2.2	11.6	2.0	-8.8	2.2	17.3	1.9	-0.1	1.9	24.5	1.5	67.6	0.9	-28.4
REVOLVING CREDITS	5.5	12.3	4.9	11.1	4.4	17.6	3.8	-44.6	6.8	40.8	4.8	-6.7	5.2	83.0	2.8	-25.7
TOT: TERM & REV *2	9.3	27.2	7.3	11.7	6.5	5.4	6.2	-30.4	8.9	29.2	6.9	1.1	6.8	75.3	3.9	-23.9
CONFIRMED LINES	17.5	48.3	11.8	18.7	9.9	4.8	9.5	-36.6	14.9	35.1	11.1	30.5	8.5	19.6	7.1	-37.5
OTHER COMMITMENTS	1.4	8.2	1.3	-25.8	1.7	57.0	1.1	-68.9	3.5	291.1	0.9	25.4	0.7	18.8	0.6	15.4
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	3.6	41.7	2.5	52.3	1.7	-0.4	1.7	-52.6	3.5	63.6	2.2	-4.4	2.3	40.4	1.6	-36.3
MTGE WAREHOUSING	1.0	3.9	0.9	1.9	0.9	65.9	0.5	-40.1	0.9	46.2	0.6	-14.0	0.7	97.3	0.4	-23.2
ALL OTHER	1.7	36.3	1.2	19.5	1.0	57.1	0.7	-40.3	1.1	-10.7	1.2	55.0	0.8	34.8	0.6	-29.8
REAL ESTATE MORTGES																
RESIDENTIAL	1.1	22.5	0.9	19.1	0.8	-2.2	0.8	-13.0	0.9	51.9	0.6	47.7	0.4	18.0	0.3	-10.0
OTHER	1.1	3.6	1.0	28.3	0.8	6.0	0.8	-33.9	1.2	16.7	1.0	12.0	0.9	27.1	0.7	18.6

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1C TAKEDOWNS, EXPIRATIONS AND CANCELLATIONS *2

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG*3
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
TOTAL TAKEDOWNS	32.8	30.2	25.4	26.1	20.1	22.2	19.3	22.4	32.0	33.0	20.7	25.0	17.4	22.9	10.6	0.0
C & I FIRMS	25.4	30.7	19.1	26.0	16.2	23.3	15.6	23.4	24.8	33.2	16.0	25.2	13.2	22.9	8.4	0.0
NONBK FINAN INSTS	5.6	29.0	4.6	25.9	2.8	17.7	2.4	16.5	5.2	30.6	3.7	24.6	3.0	21.6	1.3	0.0
REAL ESTATE MORTG	1.8	27.5	1.7	28.1	1.1	20.7	1.3	26.8	2.0	37.1	1.1	24.0	1.1	27.2	0.9	0.0
MEMO: CONSTRUCTION	1.0	21.5	0.9	21.5	0.8	20.4	1.0	25.6	1.2	29.5	0.7	21.2	0.8	26.1	0.8	0.0
LOANS INCL ABOVE																
COMMERCIAL & INDUST FIRMS																
TERM LOANS	3.3	56.3	2.1	48.3	2.1	50.0	1.8	44.0	1.7	47.6	1.6	47.3	1.4	48.1	0.7	0.0
REVOLVING CREDITS	4.9	25.6	5.4	28.9	4.1	22.5	3.5	20.5	6.4	32.4	4.7	26.5	4.3	25.1	1.5	0.0
TOT: TERM & REV *4	8.3	32.4	7.8	32.5	6.3	27.5	5.6	25.3	8.4	34.7	6.7	30.3	5.7	27.2	2.6	0.0
CONFIRMED LINES	15.8	30.6	10.2	23.0	8.2	20.1	9.0	22.4	13.4	30.6	8.8	23.3	7.0	20.8	5.1	0.0
OTHER COMMITMENTS	1.3	23.4	1.1	21.3	1.6	30.2	1.0	22.1	3.0	45.0	0.5	13.6	0.6	18.2	0.8	0.0
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	3.5	29.5	2.5	23.3	1.2	13.1	1.3	14.4	3.4	31.7	2.2	23.2	1.8	20.1	0.5	0.0
MTGE WAREHOUSING	0.8	26.6	0.8	28.9	0.9	30.7	0.5	19.6	0.7	29.3	0.7	28.7	0.6	26.2	0.3	0.0
ALL OTHER	1.4	29.5	1.3	30.4	0.7	19.5	0.7	19.9	1.0	28.4	0.9	25.8	0.7	23.1	0.5	0.0
REAL ESTATE MORTGES																
RESIDENTIAL	0.9	30.9	0.7	28.0	0.5	25.4	0.6	31.3	0.8	39.1	0.4	28.9	0.3	25.8	0.3	0.0
OTHER	0.9	24.8	1.0	28.2	0.5	17.6	0.7	23.9	1.3	36.0	0.6	21.6	0.8	27.8	0.6	0.0

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 FOR THIS TABLE THE PERCENTAGE CHANGE COLUMN CONTAINS THE RATIO OF TAKEDOWNS TO AVAILABLE COMMITMENTS; EXPRESSED AS A PERCENTAGE. (AVAILABLE COMMITMENTS = UNUSED COMMITMENTS FROM THE PREVIOUS QUARTER + NEW COMMITMENTS IN THE CURRENT QUARTER).
*3 PERCENTAGE CHANGE NOT COMPUTED FOR THIS QUARTER DUE TO THE SIZE CONSTRAINTS OF THE MATRIX.
*4 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS
(AS OF JUL. 31, 1972)

TABLE 2: VIEWS ON COMMITMENT POLICY

	(1) JULY 31 1972	(2) APR. 30 1972	(3) JAN. 31 1972	(4) OCT. 29 1971	(5) JULY 31 1971	(6) APR. 30 1971	(7) JAN. 31 1971	(8) OCT. 31 1970
TOTAL NUMBER OF BANKS RESPONDING:	48	48	48	48	48	48	47	48
UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE:								
RISEN RAPIDLY	2	0	1	0	1	5	3	1
RISEN MODERATELY	17	20	22	25	19	25	31	28
REMAINED UNCHANGED	21	21	19	15	19	12	7	13
DECLINED MODERATELY	8	7	6	8	9	6	6	6
DECLINED RAPIDLY	0	0	0	0	0	0	0	0
TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD:								
RISE RAPIDLY	0	0	0	0	0	0	0	0
RISE MODERATELY	26	26	14	13	16	13	8	6
REMAIN UNCHANGED	21	20	28	31	31	33	29	24
DECLINE MODERATELY	1	2	6	4	1	2	10	18
DECLINE RAPIDLY	0	0	0	0	0	0	0	0
COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS:								
MUCH MORE RESTRICTIVE	0	0	0	0	0	0	0	0
SOMEWHAT MORE RESTRICTIVE	1	1	0	0	2	1	0	2
UNCHANGED	42	44	34	37	37	25	8	18
LESS RESTRICTIVE	5	3	13	11	9	21	34	27
MUCH LESS RESTRICTIVE	0	0	1	0	0	1	5	1

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS
(AS OF JUL. 31, 1972)

TABLE 3 EXPLANATION OF CHANGES IN NEW COMMITMENT POLICY

	(1) JULY 31 1972	(2) APR. 30 1972	(3) JAN. 31 1972	(4) OCT. 29 1971	(5) JULY 31 1971	(6) APR. 30 1971	(7) JAN. 31 1971	(8) OCT. 31 1970
INDICATED CHANGE:								
MORE RESTRICTIVE:	1	1	0	0	2	1	0	2
INCREASED DEMAND	0	0	0	0	1	0	0	0
REDUCED FUNDS	0	0	0	0	1	0	0	2
BOTH	1	1	0	0	0	1	0	0
LESS RESTRICTIVE:	5	3	14	11	9	22	39	28
INCREASED FUNDS	1	2	2	0	5	7	11	10
DECREASED DEMAND	2	1	3	5	2	4	5	7
BOTH	2	0	9	6	2	11	23	11