Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

July 11, 1973

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

DOMESTIC NONFINANCIAL SCENE

July 11, 1973

I -- T - 1

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	June	7/6	88.9	7.2	3.0	2.7
Unemployment rate	June	7/6	4.8	5.0 1/	5.0 1/	5.5 1/
Insured unemployment rate	May	6/20	2.7	2.7 1/	2.8 1/	3.6 1/
Nonfarm employment, payroll (mil.)	June	7/6	75.5	3.1	2.9	3.8
Manufacturing	June	7/6	19.8	3.6	3.6	4.7
Nonmanufacturing	June	7/6	55.6	2.9	2.7	3.5
Private nonfarm:						
Average weekly hours (hours)	June	7/6	37.2	37.2 1/	37.1 1/	37.1 1/
Hourly earnings ($)	June	7/6	3.87	6.2	6.3	6.6
Manufacturing:						
Average weekly hours (hours)	June	7/6	40.7	40.8 1/	40.9 1/	40.6 1/
Unit labor cost (1967=100)	May	6/27	122.2	-2.0	1.0	2.5
Consumer prices (1967=100)	May	6/21	131.5	7.1	8.5	5.4
Food	May	6/21	137.9	13.2	19.8	12.8
Commodities except food	May	6/21	122.9	4.9	5.3	3.2
Services 2/	May	6/21	137.5	4.4	3.8	3.6
Wholesale prices (1967=100)	June	7/6	136.3	27.5	21.6	15.1
Industrial commodities	June	7/6	126.9	11.7	14.2	7.6
Farm products & foods & feeds	June	7/6	162.0	59.9	37.5	34.9
Personal income ($ bil.) 3/	May	6/20	1012.2	5.7	7.1	9.5
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	May	7/2	42.2	2.2	6.2	24.3
Capital goods industries:	May	7/2	12.7	1.4	7.8	22.4
Nondefense	May	7/2	10.9	2.7	7.9	22.1
Defense	May	7/2	1.8	-5.6	6.8	24.0
Inventories to sales ratio:						
Manufacturing	May	7/2	1.57	1.57 1/	1.58 1/	1.69 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	May	7/2	.777 1/	.796 1/	.836 1/	.922 1/
Retail sales, total ($ bil.)	June	7/10	41.3	-0.8	-1.7	12.1
GAF	June	7/10	11.0	0.6	-3.3	13.3
Auto sales, total (mil. units) 3/	June	7/6	10.9	-8.8	-13.9	5.6
Domestic models	June	7/6	9.1	-9.7	-14.7	3.7
Foreign models	June	7/6	1.8	-3.6	-10.0	16.8
Housing starts, private (thous.) 3/	April	6/18	2,430	15.5	-1.1	4.8
Leading indicators (1967=100)	May	6/27	161.9	1.5	1.5	14.1

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

The staff is now estimating a more moderate advance in GNP for the second quarter than was projected four weeks ago. The increase in nominal GNP is expected to be about $33 billion, rather than $36.5 billion, and the annual rate of growth in real GNP has been scaled down to 4-3/4 per cent from about 6 per cent. In the previous two quarters, real GNP had risen at an annual rate of 8 per cent. The rise in the private GNP fixed weight price index for the second quarter is estimated at about 7 per cent, up from the 6-1/2 per cent projected four weeks ago and close to the peak first quarter rate.

Slowing in the pace of real growth in the second quarter can also be seen in the data on industrial production and nonfarm payroll employment. The June index of industrial production is tentatively estimated to have risen at an annual rate of 4 per cent with increases mainly in business equipment and a few materials. For the second quarter as a whole, the rate of increase is estimated at about 7-1/2 per cent, compared with 9 per cent in the first quarter. The slower industrial growth of recent months is attributable in part to constraints imposed by available capacity in such diverse industries as metals and metal fabricating, paper, petroleum and other fuels, and trucks.

Nonfarm payroll employment rose in both June and the second quarter at an annual rate of about 2-1/2 million--a rapid rate, but below the exceptional pace of the two preceding quarters. In June, the manufacturing workweek edged down further. The unemployment rate, which had been on a 5 per cent plateau for 6 months, dipped in June to 4.8 per cent, the lowest rate in almost three years.

The second-quarter slowing in GNP growth reflects a virtual halving of the rise in consumer spending--from an extraordinary $28 billion in the first quarter to less than $15 billion in the second. In June retail sales were down almost 1 per cent from May, according to the advance report, and for the second quarter as a whole sales were little changed from the first quarter. Residential construction expenditures remained near the first quarter level, but starts were down significantly.

Meanwhile, business demands have continued strongly expansive. We have raised somewhat our second-quarter estimate of spending on fixed capital in the light of available shipments data. New orders for nondefense capital equipment have risen further, as has the order backlog for durable goods. It still appears that inventory investment increased from the first quarter pace, although less than we had expected earlier.

Following relatively moderate increases early in the year, the rise in wage rates has been more rapid in recent months. The private nonfarm hourly earnings index was up at an annual rate of about 6.5 per cent from March to June. Over the past year, the index increased by 6.2 per cent. Recent labor settlements in major industries have incorporated increases in wage rates and fringes running around 7 per cent per annum.

Leading up to the price freeze announced June 13 were dramatic and sustained increases at wholesale (and at retail) in prices of farm products and foods and an exceptionally large and widespread advance in industrial prices. In the 5 months of Phase III--from January to June--the wholesale price index increased 9.5 per cent, not at an annual rate, with prices of farm products and foods up 18 per cent and industrial commodities almost 6 per cent. The June wholesale price index, not yet affected by the freeze, was up 2.3 per cent; prices of farm products and foods rose 5 per cent and industrial prices 1 per cent.

Outlook. For the second half of 1973, our GNP projection continues to assume growth in the monetary aggregates at the longer-term rates agreed to at the June Committee meeting, with market interest rates remaining at very high levels. The assumptions with respect to Federal expenditures and tax policies remain unchanged. However, we have attempted in our projections to make allowances for the current price freeze, and for a Phase IV program that we assume will permit some upward price flexibility designed to reduce current structural distortions.

For the third quarter, real GNP is still projected to expand at an annual rate of close to 4.5 per cent. The increase in nominal GNP is now projected to be smaller than indicated four weeks ago, reflecting the price freeze. The private GNP fixed weight price index is projected to increase at an annual rate of 3.6 per cent in the third quarter, compared with the 4.6 per cent indicated four weeks ago.

Prices prior to the imposition of the freeze were already appreciably above the second quarter average; in addition the freeze is assumed to be lifted relatively soon.

In the fourth quarter, real GNP is now shown to increase somewhat more slowly than four weeks ago--by 3.3 per cent. The somewhat larger increase now expected in prices reflects a partial "catch up" following the end of the freeze. Prices of farm products and foods are expected to be rising throughout the second half, in view of demand pressures in this country and abroad and prospects for limited supplies of meats, poultry and some other food products.

Changes in the projection from the last Greenbook for 1974 are minimal. The pattern remains one of very small quarterly increases in real GNP--averaging only 1.2 per cent from late 1973 to late 1974--and a rise in the unemployment rate to 5.5 per cent in the fourth quarter of 1974 from 4.7 per cent in the fourth quarter of this year. Due to the development of tighter financial markets than had been expected earlier, the decline in residential construction is now expected to be somewhat sharper in the first half of the year, and business fixed investment to be slightly less expansive in the second half.

The price outlook for 1974 as a whole reflects some easing of upward pressures on non-food prices attributable to Phase IV controls. But some further "catch up" is assumed in the first few months of the year. Moreover, prices of farm products and foods now seem likely to be somewhat stronger on average than had been previously assumed.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate1/ Real GNP		Gross private product fixed weighted price index		Unemployment rate	
	6/13/73	7/9/73	6/13/73	7/9/73	6/13/73	7/9/73	6/13/73	7/9/73
1971 2/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 2/	101.4	101.4	6.4	6.4	3.3	3.3	5.6	5.6
1973	134.4	130.2	6.7	6.5	5.0	5.01	4.9	4.8
1974	98.9	96.6	2.5	2.3	4.9	4.5	5.2	5.2
1973:I 2/	43.0	43.0	8.0	8.0	7.4	7.4	5.0	5.0
II	36.5	33.0	5.9	4.7	6.6	7.1	5.0	4.9
III	28.3	25.1	4.4	4.4	4.6	3.6	4.8	4.7
IV	27.0	27.3	3.6	3.3	4.8	5.3	4.8	4.7
1974:I	24.9	25.2	1.9	1.5	4.9	5.4	4.9	4.9
II	21.4	21.3	1.5	1.5	4.9	4.9	5.1	5.1
III	19.2	18.5	1.1	.9	4.6	4.6	5.3	5.3
IV	19.5	19.4	1.1	1.1	4.6	4.6	5.5	5.5
Change: 72-IV to 73-IV	134.8	128.4	5.4	5.1	5.9	5.8	-.5	
73-IV to 74-IV	85.0	84.4	1.4	1.3	4.7	4.9	.7	

1/ Per cent changes for quarters are at annual rates compounded quarterly. (In previous Greenbook projections per cent changes for quarters were simple annual rates.)

2/ Actual.

CONFIDENTIAL - FR July 11, 1973

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

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 Projected II	1973 Projected III	1973 Projected IV
Gross National Product	1151.8	1282.0	1164.0	1194.9	1237.9	1270.9	1296.0	1323.3
Final purchases	1145.9	1270.2	1156.0	1184.6	1231.0	1260.4	1282.5	1306.8
Private	891.3	994.4	900.4	925.3	964.3	987.5	1004.4	1021.5
Excluding net exports	895.5	995.3	903.8	928.8	966.5	988.3	1005.1	1021.2
Personal consumption expenditures	721.0	795.8	728.6	745.7	773.6	788.3	803.0	818.1
Durable goods	116.1	132.7	118.6	120.8	130.4	132.0	133.5	135.0
Nondurable goods	299.5	332.5	302.0	310.4	322.6	328.9	335.8	342.6
Services	305.4	330.6	308.0	314.5	320.6	327.4	333.7	340.5
Gross private domestic investment	180.4	211.4	183.2	193.4	199.7	210.5	215.6	219.6
Residential construction	54.0	57.8	54.4	57.0	59.4	59.8	57.4	54.4
Business fixed investment	120.6	141.8	120.7	126.1	133.5	140.2	144.7	148.7
Change in business inventories	5.9	11.8	8.0	10.3	6.8	10.5	13.5	16.5
Nonfarm	5.6	11.7	7.9	10.1	6.5	10.2	13.5	16.5
Net exports of goods and services 1/	-4.2	-0.8	-3.4	-3.5	-2.2	-0.7	-0.7	0.3
Exports	73.7	93.3	74.4	79.6	87.6	92.4	94.9	98.4
Imports	77.9	94.2	77.8	83.1	89.8	93.1	95.6	98.1
Gov't. purchases of goods and services	254.6	275.8	255.6	259.3	266.8	272.8	278.1	285.3
Federal	105.8	108.3	105.4	104.0	106.6	107.8	108.6	110.2
Defense	75.9	75.0	75.1	73.2	75.0	75.0	75.0	75.0
Other	29.9	33.3	30.2	30.8	31.6	32.8	33.6	35.2
State & local	148.8	167.4	150.2	155.2	160.1	165.0	169.5	175.1
Gross national product in constant (1958) dollars	789.5	840.7	796.1	811.6	827.3	836.9	845.9	852.7
GNP implicit deflator (1958 = 100)	145.9	152.5	146.2	147.2	149.6	151.9	153.2	155.2
Personal income	935.9	1023.5	939.9	974.6	993.9	1013.7	1033.9	1052.3
Wage and salary disbursements	627.0	689.1	630.6	648.8	668.1	682.8	696.6	708.9
Disposable income	795.1	875.6	798.8	828.2	850.4	870.9	883.3	897.7
Personal saving	54.8	58.9	50.8	62.8	56.5	62.0	58.9	58.1
Saving rate (per cent)	6.9	6.7	6.4	7.6	6.6	7.1	6.7	6.5
Corporate profits before tax	94.3	124.7	95.7	101.5	114.3	128.0	126.5	130.0
Corp. cash flow, net of div. (domestic)	91.7	111.1	93.1	97.1	104.1	112.8	112.6	115.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.6	262.0	229.8	238.4	252.3	257.7	266.1	272.0
Expenditures	246.8	265.5	241.6	262.7	260.0	263.0	267.3	271.8
Surplus or deficit (-)	-18.1	-3.5	-11.8	-24.3	-7.7	-5.3	-1.2	0.2
High employment surplus or deficit (-)	-1.9	-1.5	2.5	-13.5	-2.2	-2.9	-1.7	0.6
State and local government surplus or deficit (-), (N.I.A. basis)	12.7	10.8	9.4	19.5	14.5	10.9	9.8	8.0
Total labor force (millions)	89.0	91.0	89.3	89.6	90.0	90.9	91.3	91.7
Armed forces "	2.4	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.7	86.9	87.2	87.6	88.6	89.0	89.4
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.7	4.7
Nonfarm payroll employment (millions)	72.8	75.4	73.0	73.8	74.6	75.3	75.7	76.1
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.9	19.9
Industrial production (1967 = 100)	114.4	124.0	115.0	118.4	121.0	123.3	125.2	126.4
Capacity utilization, mfg. (per cent)	77.9	82.1	78.4	80.2	81.4	82.2	82.5	82.4
Major materials (per cent)	90.2	95.3	91.0	92.4	93.6	95.2	96.0	96.5
Housing starts, private (millions, A.R.)	2.38	2.12	2.37	2.40	2.40	2.19	2.02	1.85
Sales new autos (millions, A.R.)	10.94	11.56	11.53	11.69	12.23	11.49	11.50	11.00
Domestic models	9.32	9.85	9.91	9.90	10.27	9.64	10.00	9.50
Foreign models	1.61	1.70	1.61	1.79	1.96	1.85	1.50	1.50

1/ GNP exports and imports estimates for 1972 have not been revised to reflect revised Balance of Payments estimates incorporating new seasonal factors; these revised estimates for 1972 and corresponding projections for 1973 are:

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 Projected II	1973 Projected III	1973 Projected IV
Net exports of goods and services	-4.6	1.4	-3.8	-3.5	0.0	1.5	1.5	2.5
Exports	73.5	95.4	74.0	79.7	89.7	94.5	97.0	100.5
Imports	78.1	94.1	77.7	83.2	89.7	93.0	95.5	98.0

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

	1974 Proj.	1974 Projected I	II	III	IV
Gross National Product	1378.6	1348.5	1369.8	1388.3	1407.7
Final purchases	1365.8	1333.0	1356.3	1376.3	1397.7
Private	1062.6	1039.0	1055.9	1070.1	1085.4
Excluding net exports	1059.9	1037.2	1053.1	1067.3	1082.1
Personal consumption expenditures	857.0	834.5	850.6	864.8	877.9
Durable goods	137.4	136.0	137.5	138.0	138.0
Nondurable goods	361.6	351.0	358.6	365.3	371.4
Services	358.0	347.5	354.5	361.5	368.5
Gross private domestic investment	215.7	218.2	216.0	214.5	214.2
Residential construction	48.7	51.0	48.8	47.3	47.5
Business fixed investment	154.3	151.7	153.7	155.2	156.7
Change in business inventories	12.8	15.5	13.5	12.0	10.0
Nonfarm	12.8	15.5	13.5	12.0	10.0
Net exports of goods and services 1/	2.7	1.8	2.8	2.8	3.3
Exports	104.5	101.4	103.9	105.4	107.4
Imports	101.9	99.6	101.1	102.6	104.1
Gov't. purchases of goods and services	303.2	294.0	300.4	306.2	312.3
Federal	115.2	113.8	115.0	115.6	116.2
Defense	77.6	77.0	77.3	77.8	78.3
Other	37.6	36.8	37.7	37.8	37.9
State & local	188.1	180.2	185.4	190.6	196.1
Gross national product in constant (1958) dollars	859.9	855.9	859.1	861.1	863.4
GNP implicit deflator (1958 = 100)	160.3	157.5	159.4	161.2	163.0
Personal income	1099.4	1072.8	1090.9	1108.0	1126.0
Wage and salary disbursement	739.8	722.3	734.8	744.6	757.6
Disposable income	938.9	916.3	933.2	945.9	960.1
Personal saving	59.6	60.0	60.4	58.6	59.3
Saving rate (per cent)	6.4	6.5	6.5	6.2	6.2
Corporate profits before tax	129.5	131.5	130.5	128.0	128.0
Corp. cash flow, net of div. (domestic)	116.9	116.6	117.0	116.4	117.4
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	282.6	278.4	279.8	283.9	288.2
Expenditures	289.5	281.3	286.0	293.1	297.5
Surplus or deficit (-)	-6.9	-2.9	-6.2	-9.2	-9.3
High employment surplus or deficit (-)	5.6	2.2	5.2	6.0	8.8
State and local government surplus or deficit (-), N.I.A. basis	4.3	6.2	4.8	4.0	2.2
Total labor force (millions)	92.7	92.1	92.5	92.9	93.3
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.4	89.8	90.2	90.6	91.0
Unemployment rate (per cent)	5.2	4.9	5.1	5.3	5.5
Nonfarm payroll employment (millions)	76.8	76.4	76.7	76.9	77.0
Manufacturing	19.7	19.8	19.7	19.6	19.5
Industrial production (1967 = 100)	127.6	127.0	127.5	127.8	128.0
Capacity utilization, mfg. (per cent)	80.8	81.8	81.2	80.4	79.6
Major materials	95.2	96.1	95.5	94.9	94.3
Housing starts, private (millions, A.R.)	1.69	1.75	1.65	1.65	1.70
Sales new autos (millions, A.R.)	10.19	10.75	10.25	10.25	9.50
Domestic models	8.69	9.25	8.75	8.75	8.00
Foreign models	1.50	1.50	1.50	1.50	1.50

1/ Exports and imports projections for 1974 on Balance of Payments basis corresponding to revised estimates for 1972 and corresponding projections for 1973 are:

Net exports of goods and services	4.9	4.0	5.0	5.0	5.5
Exports	106.7	103.5	106.0	107.5	109.5
Imports	101.8	99.5	101.0	102.5	104.0

CONFIDENTIAL - FR

July 11, 1973

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 Projection II	1973 Projection III	1973 Projection IV
	---------	---------	---------	Billions Of Dollars	---------	---------	---------	---------
Gross National Product	101.4	130.2	24.6	30.9	43.0	33.0	25.1	27.3
Inventory change	2.3	5.9	3.0	2.3	-3.5	3.7	3.0	3.0
Final purchases	99.2	124.3	21.6	28.6	46.4	29.4	22.1	24.3
Private	77.4	103.1	20.1	24.9	39.0	23.2	16.9	17.1
Excluding net exports	82.3	99.8	18.3	25.0	37.7	21.8	16.8	16.1
Net exports	-4.8	3.4	1.8	-0.1	1.3	1.5	0.0	1.0
Government	21.8	21.2	1.5	3.7	7.5	6.0	5.3	7.2
GNP in constant (1958) dollars	47.8	51.2	12.2	15.5	15.7	9.6	9.0	6.8
Final purchases	45.8	47.3	9.8	13.8	18.8	7.3	6.5	4.4
Private	40.6	45.5	11.1	13.8	18.6	6.2	5.4	2.9
	---------	---------	---------	Per Cent Per Year 1/	---------	---------	---------	---------
Gross National Product	9.7	11.3	8.9	11.0	15.2	11.1	8.1	8.7
Final purchases	9.5	10.8	7.8	10.3	16.6	9.9	7.2	7.8
Private	9.5	11.6	9.5	11.5	18.0	10.0	7.0	7.0
Personal consumption expenditures	8.4	10.4	8.8	9.7	15.8	7.8	7.7	7.7
Durable goods	12.2	14.3	17.6	7.6	35.8	5.0	4.6	4.6
Nondurable goods	7.7	11.0	6.6	11.6	16.7	8.0	8.7	8.3
Services	7.8	8.3	7.6	8.7	8.0	8.8	7.9	8.4
Gross private domestic investment	18.7	17.2	14.8	24.2	13.7	23.5	10.0	7.6
Residential construction	26.8	7.0	12.7	20.5	17.9	2.7	-15.1	-19.3
Business fixed investment	14.0	17.6	5.1	19.1	25.6	21.6	13.5	11.5
Gov't. purchases of goods & services	9.4	8.3	2.4	5.9	12.1	9.3	8.0	10.8
Federal	8.2	2.4	-9.6	-5.2	10.4	4.6	3.0	6.0
Defense	6.3	-1.2	-16.7	-9.7	10.2	0.0	0.0	0.0
Other	13.7	11.4	8.4	8.2	10.8	16.1	10.1	20.5
State & local	10.2	12.5	12.0	14.0	13.2	12.8	11.4	13.9
GNP in constant (1958) dollars	6.4	6.5	6.3	8.0	8.0	4.7	4.4	3.3
Final purchases	6.2	6.0	5.1	7.2	9.7	3.6	3.2	2.1
Private	6.7	7.1	7.2	8.7	11.7	3.7	3.2	1.7
GNP implicit deflator	3.0	4.5	2.4	2.8	6.6 2/	6.1	3.6	5.3
Private GNP fixed weight index 3/	3.3	5.0	2.9	3.1	7.4	7.1	3.6	5.3
Personal income	8.6	9.4	7.9	15.6	8.2	8.2	8.2	7.3
Wage and salary disbursements	9.4	9.9	6.7	12.1	12.4	9.1	8.3	7.3
Disposable income	6.8	10.1	8.5	15.6	11.2	10.0	5.8	6.7
Corporate profits before tax	13.2	32.2	19.1	26.5	60.8	57.3	-4.6	11.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.8	14.6	9.0	15.8	25.4	8.8	13.7	9.2
Expenditures	11.8	7.6	-7.7	39.8	-4.0	4.7	6.7	6.9
Nonfarm payroll employment	3.0	3.6	2.8	4.5	4.5	3.5	2.3	2.1
Manufacturing	2.2	4.8	2.6	7.1	5.4	4.3	2.6	0.0
Industrial production	7.1	8.4	6.9	12.2	9.2	7.7	6.1	4.1
Housing starts, private	14.1	-11.0	16.0	6.6	0.2	-30.6	-27.4	-30.3
Sales new autos	6.8	5.7	49.7	5.9	19.8	-22.1	0.3	-16.3
Domestic models	7.4	5.7	53.1	-0.5	16.0	-22.4	15.7	-18.5
Foreign models	3.3	5.5	30.9	52.0	42.3	-20.2	-56.7	0.0

1/ Percentage rates of change are annual rates compounded quarterly. (In previous Greenbooks these generally were not compounded.)

2/ Excluding Federal pay increase, 5.8 per cent annual rate.

3/ Using expenditures in 1967 as weights.

CONFIDENTIAL - FR

July 11, 1973

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	-----------	-Billions of Dollars	-------	------	------
Gross National Product	96.6	25.2	21.3	18.5	19.4
Inventory change	1.0	-1.0	-2.0	-1.5	-2.0
Final purchases	95.6	26.2	23.3	20.0	21.4
Private	68.2	17.5	16.9	14.2	15.3
Excluding net exports	64.6	16.0	15.9	14.2	14.8
Net exports	3.5	1.5	1.0	0.0	0.5
Government	27.4	8.7	6.4	5.8	6.1
GNP in constant (1958) dollars	19.2	3.2	3.2	2.0	2.3
Final purchases	17.6	3.7	4.5	2.6	3.2
Private	13.0	2.7	3.3	1.8	2.3
	-----------	-Per Cent Per Year[1/]	-------	------	------
Gross National Product	7.5	7.8	6.5	5.5	5.7
Final purchases	7.5	8.3	7.2	6.0	6.4
Private	6.9	7.0	6.7	5.5	5.8
Personal consumption expenditures	7.7	8.3	7.9	6.8	6.2
Durable goods	3.5	3.0	4.5	1.5	0.0
Nondurable goods	8.8	10.2	8.9	7.7	6.8
Services	8.3	8.5	8.3	8.1	8.0
Gross private domestic investment	2.0	-2.5	-4.0	-2.7	-0.6
Residential construction	-15.7	-22.8	-16.2	-11.7	1.7
Business fixed investment	8.8	8.3	5.4	4.0	3.9
Gov't. purchases of goods & services	9.9	12.8	9.0	7.9	8.2
Federal	6.4	13.7	4.3	2.1	2.1
Defense	3.5	11.1	1.6	2.6	2.6
Other	12.9	19.5	10.1	1.1	1.1
State & local	12.4	12.2	12.1	11.7	12.1
GNP in constant (1958) dollars	2.3	1.5	1.5	0.9	1.1
Final purchases	2.1	1.8	2.1	1.2	1.5
Private	1.9	1.6	1.9	1.0	1.3
GNP implicit deflator	5.1	6.2[2/]	4.9	4.6	4.6
Private GNP fixed weight index[3/]	4.5	5.4	4.9	4.6	4.6
Personal income	7.4	8.0	6.9	6.4	6.7
Wage and salary disbursements	7.4	7.8	7.1	5.4	7.2
Disposable income	7.2	8.5	7.6	5.6	6.1
Corporate profits before tax	3.8	4.7	-3.0	-7.4	0.0
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	7.8	9.7	2.0	6.0	6.2
Expenditures	9.0	14.7	6.9	10.3	6.1
Nonfarm payroll employment	1.9	1.6	1.6	1.0	0.5
Manufacturing	-0.5	-2.0	-2.0	-2.0	-2.0
Industrial production	2.9	1.8	1.6	0.8	0.7
Housing starts, private	-20.3	-19.9	-21.0	0.0	12.7
Sales new autos	-11.8	-8.8	-17.3	0.0	-26.2
Domestic models	-11.8	-10.1	-19.9	0.0	-30.1
Foreign models	-11.8	0.0	0.0	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly. (In previous Greenbooks these generally were not compounded.)

2/ Excluding Federal pay increase, 5.4 per cent annual rate.

3/ Using expenditures in 1967 as weights.

<u>Industrial production</u>. Industrial production is tentatively estimated to have risen about 0.3 per cent in June, to a level 9 per cent above a year earlier. Incomplete data indicate that the gains were mainly in business equipment and some industrial materials.

Auto assemblies in June were at an annual rate of 10.2 million units compared to a 10.0 million rate in May. Production schedules for the third quarter indicate little change from the June level. Output of most other consumer goods in June apparently remained at the advanced May rate, but weekly production data for some household appliances show a decline. Production worker manhour data suggest a further strong rise in output of business equipment. Production of steel mill products and industrial chemicals is estimated to have advanced further, but weekly output data for raw steel, paper, and crude oil show little change in June.

The rate of growth in industrial output has slackened since late 1972, as shown in the table.

INDUSTRIAL PRODUCTION
Per cent changes at annual rates

QIII 1972 to QIV 1972	QIV 1972 to QI 1973	QI 1973 to QII 1973
12	9	7 1/2 est.

<u>Retail sales</u>. Sales in June were down almost 1 per cent from May, according to the advance Census estimate. The decline was mostly attributable to the automotive group which reported a reduction of

4.4 per cent. Except for the general merchandise group, which showed an increase of 1 per cent, most of the other major categories of stores reported sales little different from May.

Second quarter sales were about unchanged from the exceptionally strong first quarter level. However, from the fourth quarter of 1972 to the second quarter of 1973 retail sales rose at an annual rate of 11.6 per cent. June sales were up 12 per cent from a year earlier.

RETAIL SALES
Seasonally Adjusted
Percentage Change from Previous Period

	1972	1973			
	QIV-I	QI-II	April	May	June
Total sales	5.7	.1	-1.9	.9	-.8
Durable	8.2	-1.9	-1.9	-.7	-2.7
Auto	7.8	-2.6	-2.4	-.6	-4.4
Furniture and appliance	9.1	-.3	.5	-2.3	.1
Nondurable	4.4	1.1	-1.9	1.8	.2
Food	3.7	2.2	2.2	.1	.1
General merchandise	6.3	.6	-6.2	3.3	1.0
Total, less auto and nonconsumption items	4.7	1.1	-1.6	1.5	.2
GAF	6.9	-.5	-6.4	2.7	.6

Unit sales of consumer durables. June sales of new domestic-type autos were at a 9.1 million unit annual rate, down 10 per cent from May but 4 per cent above a year earlier. We are unaware of any special factors that may have contributed to the decline from a month earlier. In the second quarter as a whole, domestic sales averaged 9.6 million units annual rate, compared with 10.3 million in the first quarter.

Foreign car sales in June were at a 1.8 million unit annual rate, 4 per cent below a month earlier but a sixth above a year earlier. Foreign sales averaged 1.8 million units in the second quarter, down from 2.0 million in the first quarter. The import share in June came to 16.5 per cent compared to 14.9 per cent a year earlier.

Factory unit sales of major appliances, TVs, and radios are estimated to have fallen 12 per cent in June from the May level but were 11 per cent above a year earlier. Appliance sales to dealers were down 15 per cent from May with all components of the index estimated to be either no higher than or below a month earlier. Sales of color and monochrome TV each declined 9 per cent from May, while radio sales were up slightly.

UNIT SALES OF SELECTED CONSUMER DURABLE GOODS
Seasonally adjusted

	1972	1973			Per cent change from:	
	June	April	May	June	Month ago	Year ago
			Annual rate			
Auto sales	10.3	11.7	12.0	10.9	-9	6
Domestic	8.8	9.8	10.1	9.1	-10	4
Foreign	1.5	1.9	1.9	1.8	-4	17
			Index 1967=100			
Home goods factory sales	122	153	154e	135e	-12	11
TVs1/	130	158	158	144e	-9	11
Radios1/	94	81	74	77e	4	-18
Major appliances	119	157	159e	135e	-15	13

1/ Includes foreign made units sold under domestic labels; foreign-label units not included.

<u>Construction and real estate</u>. The seasonally adjusted value of new construction put in place edged higher in June to an annual rate of $138.0 billion. In the private sector, outlays for both residential construction and nonresidential construction apparently reached new peaks. Outlays for public construction declined, but were still only moderately below the high registered last January.

The Census Bureau's composite construction cost index in June apparently was unchanged from its record May level--at 148 per cent of the 1967 average. Even so, in real terms, total outlays for construction in June remained somewhat under the peak reached in the first quarter of the year.

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

	1973			Per cent change in June from:	
	QI (r)	QII (p)	June 1/	May 1973	June 1972
Total - current dollars	135.0	136.8	138.0	+ 1	+ 13
Private	101.8	103.9	105.2	+ 1	+ 14
Residential	59.0	59.7	60.4	+ 1	+ 13
Nonresidential	42.8	44.2	44.8	+ 1	+ 14
Public	33.2	32.8	32.8	- 1	+ 13
State and local	28.0	27.9	27.8	--	+ 15
Federal	5.2	4.9	5.0	- 6	+ 4
Total - 1967 dollars	93.2	92.3	93.0	--	+ 5

1/ Data for June 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts turned up sharply in May to an annual rate of 2.43 million units. However, the upturn followed three consecutive months of decline, and the April-May average annual rate--2.27 million units--was still appreciably below the advanced first quarter pace. Moreover, given the considerably reduced level of building permits in recent months and other factors, some resumption of the downtrend in starts most likely occurred in June.

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

	1972	1973			Per cent change in May from:	
	QIV	QI(r)	April(r)	May (p)	Mo. ago	Year ago
Permits	2.24	2.16	1.83	1.87	+ 2	- 5
Starts	2.40	2.40	2.10	2.43	+15	+ 5
1-family	1.28	1.36	1.20	1.27	+ 6	- 3
2-or more-family	1.12	1.04	.91	1.16	+28	+15
Completions	2.02	2.10	2.01	--	- 7 1/	+ 3 1/
MEMO:						
Mobile home shipments	.61	.68	.68	.66 2/	- 3	+14

p/ Preliminary
1/ Per cent changes shown based on April 1973.
2/ Confidential until July 16.

Plant and equipment spending plans. A special resurvey by McGraw-Hill of companies in their sample indicates no significant change in capital spending plans between April and June; companies still report plans for a 19 per cent increase in 1973. The largest change in spending plans over this period was in durable manufacturing where a number of firms reported reductions in planned expenditures because they do not believe they can spend the amounts budgeted earlier.

The new survey plans are still well above the 13 per cent rise indicated in the May Commerce survey. The discrepancy between the two surveys probably arises from the adjustment made for reporting bias by Commerce and the difference in samples; the McGraw-Hill survey is comprised mainly of large firms while Commerce includes small companies as well.

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

	1972	1973		
		Commerce (May)	McGraw-Hill (April)	McGraw-Hill (June)
	Actual	Anticipated		
All business	8.9	13.2	19.3	19.4
Manufacturing	5	19	29	25
Durable goods	11	22	38	34
Nondurable goods	-1	15	20	20
Nonmanufacturing	12	10	14	15

Manufacturers' orders and shipments. New orders for durable goods rose 2.2 per cent in May (p) following an upward revised 0.8 per cent increase in April. Nondefense capital goods orders were up 2.7 per cent in May and primary metals orders gained 4.5 per cent.

The April-May average for new orders for durable goods was 4.5 per cent above that of the first quarter, but there has been some slowing in the rate of growth. Growth in capital goods orders decelerated somewhat from 6.8 per cent in the first quarter to 4.6 per cent in the April-May period. Orders for primary metals, however, increased more rapidly than in the first quarter.

Shipments of durable goods were up in May, and backlogs of unfilled orders continued to increase rapidly.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
(Per cent changes, month or monthly averages)

	1973		
	Q I from Q IV 1972	April-May Avg. from Q I	May from April (p)
Durable goods total	6.7	4.5	2.2
Excluding defense	6.4	4.4	2.6
Primary metals	10.2	12.1	4.5
Motor vehicles and parts	3.5	-2.7	3.5
Household durables	4.8	2.5	-3.6
Capital goods industries	6.8	4.6	1.4
Nondefense	5.6	4.3	2.7
Defense	14.7	6.0	-5.6
Construction and other durables	7.3	5.0	2.5

Inventories. Book value of inventories at manufacturing and wholesale trade establishments increased in May by more than the upward-revised April rate, but the rate for the two months combined was still below the first quarter.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rate, billions

	1972	1973		
	Q IV (Rev.)	Q I (Rev.)	April (Rev.)	May (Prel.)
Manufacturing and trade	14.7	21.9	14.9	n.a.
Manufacturing, total	6.2	9.8	4.8	10.7
Durable	5.4	6.6	4.1	8.2
Nondurable	.8	3.2	.7	2.5
Trade, total	8.5	12.0	10.0	n.a.
Wholesale	4.3	6.1	3.9	5.1
Retail	4.2	6.0	6.1	n.a

In May, the ratio of inventories to sales was unchanged at a low level at manufacturing establishments. It rose somewhat but was still low at wholesale trade. The ratio of inventories to unfilled orders at durable goods manufacturers dropped sharply further.

INVENTORY RATIOS

	1972		1973	
	April (Rev.)	May (Rev.)	April (Rev.)	May (Prel.)
Inventories to sales:				
Manufacturing and trade	1.53	1.52	1.42	n.a.
Manufacturing, total	1.70	1.69	1.57	1.57
Durable	2.02	2.02	1.87	1.86
Nondurable	1.31	1.30	1.21	1.21
Trade, total	1.36	1.35	1.28	n.a.
Wholesale	1.22	1.23	1.13	1.15
Retail	1.46	1.44	1.38	n.a.
Inventories to unfilled orders:				
Durable goods manufacturing	.936	.932	.796	.777

Cyclical indicators. The Census composite index of leading indicators rose 1.5 per cent in May (p). The April decline is now estimated at 1.7 per cent. The rise in the coincident composite index slowed in April and May and the deflated coincident index declined in both months. The lagging index rose further in April and May.

Leading series increasing in May were initial claims for unemployment insurance (inverted), new orders for durable goods, contracts and orders for plant and equipment, housing permits, industrial materials prices, and the ratio of price to unit labor cost in manufacturing. Series declining were the manufacturing workweek and common stock prices. Since the composite was compiled, a substantial increase has been reported in the change in consumer instalment debt in May.

In June, common stock prices and the manufacturing workweek declined while industrial materials prices rose.

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

	1973			
	Feb.	Mar.	Apr.	May (p)
12 Leading (trend adjusted)	1.9	1.7	-1.7	1.5
12 Leading, prior to trend adjustment	1.5	1.4	-2.1	1.1
5 Coincident	1.3	1.1	.6	.6
5 Coincident, deflated	.7	.4	-.3	-.3
6 Lagging	2.3	1.5	2.5	1.3

The lagging index has been rising relative to the coincident composite index since about October of last year, suggesting an increase in "strain" in the economy. The most striking accelerations among the lagging indicators over these months have been in business loan interest rates and business loans outstanding.

<u>Labor market</u>. The labor market continues to be generally strong, although the intensity of labor demand appears to have moderated somewhat. Growth of payroll employment has slowed in the past few months and the factory workweek declined in June for the second consecutive month. However, the unemployment rate fell 0.2 percentage points in June to 4.8 per cent, following six months at about 5 per cent, as gains in total employment outpaced a large increase in the labor force.

Unemployment in June declined particularly for the 18-24 year group, and the rate for adult males was also off. Unemployment among Negroes dropped to 8.5 per cent, the lowest rate since the fall of 1970, while the rate for white workers was unchanged. Compared to a year ago, the number of unemployed workers has fallen by 600,000 and the unemployment rate has declined 0.7 percentage points. Unemployment rates, however, are still well above the cyclical lows prevailing in the late sixties.

SELECTED UNEMPLOYMENT RATES

	1972	1973		
	June	January	May	June
Total	5.5	5.0	5.0	4.8
Men 20 years and over	4.0	3.3	3.4	3.2
Women 20 years and over	5.6	5.3	4.6	4.9
Teenagers	14.9	14.3	15.4	13.3
Household heads	3.5	2.9	2.9	2.9
White	5.1	4.6	4.4	4.3
Negro and other races	9.2	8.9	9.4	8.5
White-collar	3.2	3.2	2.8	2.8
Blue-collar	6.5	5.6	5.4	5.3

After increasing at about a "normal" rate in 1972, the labor force has grown quite rapidly in the past half year. Nearly two-thirds of the recent increase in the labor force has been among women 20 years and over, mostly seeking full-time work, and they have also accounted for over half of the increase in total employment this year.

Employment and hours. Preliminary nonfarm payroll employment estimates for June show an increase of 200,000 with gains widespread. Although payroll employment increased rapidly in the second quarter, the rate of growth slowed from the extremely fast pace of the previous two quarters. Reduced rates of growth have been evident in both the goods and service sectors of the private economy; all the slowing in manufacturing has occurred among production workers. The factory work-week has also been drifting down in the past few months from the peak of 41 hours (the same as the high in 1968-69) reached in February.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	1972 QII-1972 QIII	1972 QIII-1972 QIV	1972 QIV-1973 QI	1973 QI-1973 QII
Total	505	814	820	652
Private	414	686	746	545
Good-producing	128	316	310	250
Manufacturing	121	329	256	207
Production workers	109	288	217	165
Construction	7	-16	50	45
Service-producing	286	370	436	295
Trade	126	152	198	140
Services	121	120	178	109
Government	91	128	74	107
Federal	-32	21	-13	0
State and local	123	106	88	107

AVERAGE WEEKLY HOURS OF MANUFACTURING PRODUCTION WORKERS
(Seasonally adjusted)

	1972	1973	
	June	February	June
Total manufacturing	40.6	41.0	40.7
Overtime hours	3.4	3.9	3.7
Durable goods	41.3	42.0	41.5
Nondurable goods	39.7	39.7	39.5

Earnings. The pace of increase in the hourly earnings index apparently has picked up in recent months during Phase III, although over short periods this series has been relatively volatile in the past. The largest increase has been in manufacturing where the earnings index rose at a 6.8 per cent annual rate during the past three months, compared to a 5.4 per cent rate over the preceding nine months. In some manufacturing industries--such as autos, steel and cans--the recent rise partly reflects automatic cost-of-living increases. The rate of earnings increase has also accelerated in trade and service; both industries had shown relatively moderate rates of rise prior to the recent speed-up.

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

	June 1971-June 1972	June 1972-June 1973	June 1972-March 1973	March 1973-June 1973
Total	6.0	6.2	6.0	6.6
Manufacturing	6.0	5.8	5.4	6.8
Construction	5.9	6.4	6.4	6.0
Transportation	10.2	8.7	9.4	6.1
Trade	4.9	5.9	5.6	6.5
Services	5.0	6.0	5.8	6.3

* Average hourly earnings adjusted for inter-industry shifts and, in manufacturing only, for overtime hours.

Industrial productivity and labor costs. Unit labor costs in the industrial sector rose at an annual rate of 3.0 per cent in the second quarter of 1973, according to preliminary estimates. This was down sharply from the 8.1 per cent rate of the first quarter which had reflected the increase in employer contributions for social security taxes, effective at the beginning of the year. Productivity increased at a 2.9 per cent annual rate, little different from the first quarter, while the rise in compensation per manhour slowed to an annual rate of 6.0 per cent. Compared with a year earlier, unit labor costs in the second quarter were up 4.0 per cent with compensation per manhour up 8.0 per cent and productivity 4.0 per cent.

TOTAL INDUSTRIAL SECTOR:
PRODUCTIVITY AND LABOR COSTS 1/

Series	1972			1973	
	QII	QIII	QIV	QI	QII
	Per cent change from previous quarter at annual rate				
Output per manhour	4.5	5.6	4.4	2.6	2.9e
Compensation per manhour	5.7	5.9	8.5	10.5	6.0p
Unit labor costs	1.4	.7	3.8	8.1	3.0e
	Per cent change over previous year				
Output per manhour	3.3	4.1	4.9	4.4	4.0e
Compensation per manhour	5.7	6.5	7.3	8.0	8.0p
Unit labor costs	2.7	2.0	2.8	3.5	4.0e

1/ For a description of these series see the "Supplement to Current Economic and Financial Conditions," April 13, 1973.

<u>Industrial relations</u>. The Teamsters Union and the trucking industry reached tentative agreement on a new 33 month contract which provides wage and benefit increases averaging a minimum of about 7 per cent a year over the life of the contract. The new agreement, which covers about 400,000 workers, provides first year wage and benefit boosts of about 7.5 per cent effective July 1, 1973, with 7.0 per cent guaranteed in the second year and 6.5 per cent in the third year, including guaranteed cost-of-living adjustments of 8 cents an hour in the second and third contract years. A maximum of 11 cents an hour may be paid in each of the second and third years depending on the increase in the Consumer Price Index. The escalator formula provides a one cent per hour raise for each 0.3 per cent rise in the CPI.

In the potentially most expensive settlement so far this year, the postal unions reached tentative agreement with the U.S. Postal Service on a two year contract which would provide wage and benefit increases of 8 per cent in the first year beginning July 20, 1973, and 6 per cent in the second, plus an unlimited cost-of-living adjustment. This escalator pays 1 cent an hour for each 0.4 per cent rise in the CPI.

In other industrial relations developments, the West Coast longshoremen reached a tentative settlement with the Pacific Maritime Association on a two year contract covering about 13,000 dock workers. Pay boosts total 7.8 per cent in the first year and 5.5 per cent in the second year with no cost-of-living provisions. The agreement also provides for paid holidays and a guaranteed work week as well as for no layoffs during the two contract years.

<u>Consumer prices</u>. Consumer prices continued to rise rapidly in May, although the increase of 0.6 per cent in both April and May was below the seasonally-adjusted March rise of 0.9 per cent. During the first four months of Phase III consumer food prices rose at an annual rate of over 20 per cent, and nonfood commodity prices at a rate of about 5 per cent--about twice their rate of rise in Phase II. Consumer service prices have accelerated less, however, with home finance costs moderating the rate of rise in recent months.

In May, prices of restaurant meals advanced sharply and there were large increases in prices for cereal and bakery products and fresh vegetables. On an unadjusted basis, meat prices dropped slightly. Among nonfoods, gasoline, fuel oil, furniture, and used cars increased. Among services, rents and home maintenance and mortgage interest costs moved up faster than in April.

The trend of wholesale prices suggests that June will also see a large rise at the retail level. Wholesale prices of eggs, dairy-products, fresh fruits and vegetables, and indeed, of most foods, rose in June. Wholesale prices of consumer nonfoods have advanced at well over twice the rate of retail prices in Phase III, a differential that suggests that at least some retail lines may be undergoing a profit squeeze under the current freeze.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative impor-tance Dec. 1972	Phase II Nov. 1971 to Jan. 1973	Phase III Jan. 1972 to May 1973	April 1973 to May 1973
		(13 mo.)	(4 mo.)	
All items	100.0	3.6	8.7	7.8
Food	22.5	6.5	22.4	18.4
Commodities less food	40.1	2.4	5.0	5.0
Services 1/	37.4	3.5	4.0	3.6
Addendum:				
All items less mortgage costs 2/	96.3	3.7	9.5	9.7
Services less home finance 1/ 2/ 3/	30.9	3.3	4.6	4.6
Commodities less food, used cars home purchase 3/	31.8	2.1	5.9	7.2

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.

Wholesale prices. Wholesale prices, seasonally adjusted, rose 2.3 per cent between May and June (31.2 per cent at an annual rate), as prices of both industrial commodities and farm food products increased sharply further.

During Phase III, which ended on June 13, 1973 with the re-imposition of a freeze on prices, the WPI increased at a rate about 3-1/2 times as fast as in Phase II.

WHOLESALE PRICES
(Percentage changes, at seasonally adjusted annual rates)

	Phase II Nov. 1971 to Jan. 1973 (13 months)	Phase III Jan. 1973 to June 1973 (5 months)
All commodities	6.9	24.4
Farm products 1/	16.1	49.8
Industrial commodities	3.5	14.4
Consumer finished goods	5.6	18.6
Foods	10.6	25.4
Finished goods, less foods	2.3	14.6

1/ Farm products, and processed foods and feeds.

From May to June the index of farm and food products increased 5.0 per cent, seasonally adjusted. Increases were widespread and large, especially for manufactured animal feeds, oilseeds--particularly soybeans--and feed grains, which together accounted for about three-fourths of the rise in the index of farm and food products and about one-half of the increase in the overall WPI.

The increase in consumer finished foods accelerated from May to June, largely because of higher prices for fresh fruits and vegetables, eggs, fats and oils, and meats.

Prices of industrial commodities rose 1.0 per cent after seasonal adjustment and 12.4 per cent at an annual rate. Fuels and power accounted for more than 50 per cent of this advance with higher prices for refined petroleum products--35 per cent above a year earlier--chiefly responsible. Other major influences included increases for metals and metal products, textile products, chemicals, and paper products. The decline in the lumber and wood products index--the first since October 1971 and only the second since December 1970--reflected lower prices for softwood lumber and softwood plywood.

Price increases for consumer nonfood finished goods accelerated even beyond the high rates of other recent months; higher prices for distillates, gasoline, jewelry, and household furniture were mainly responsible for the rise in this index.

Producer finished goods prices rose 0.3 per cent following several months of much more rapid increases, reflecting chiefly a much slower rise for machinery and equipment although nearly all categories of this group advanced.

The BLS metals index based on Tuesday spot market prices has not changed since the inauguration of the recent freeze, and the U.S. prices of several metals, including copper, lead, and zinc are substantially below those on the London Metals Exchange. The recently imposed export controls on iron and steel scrap apparently have had little or no effect on U.S. scrap prices.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	1972		1973		
				Phase III	
	Dec. 1971 to June 1972	June to Dec.	Dec. 1972 to June 1973	Jan. to June	May to June
All commodities	4.7	8.3	22.3	24.4	31.2
Farm products	5.9	23.4	47.5	49.8	79.4
Industrial commodities	4.2	2.9	12.5	14.4	12.4
Crude materials	9.4	12.4	23.3	25.9	42.0
Intermediate materials	4.5	3.6	12.3	15.5	10.8
Finished goods	2.9	1.5	10.0	11.9	15.0
Producer	3.6	.7	5.7	6.7	4.0
Consumer	2.5	1.9	12.2	14.6	20.9
Consumer finished foods	3.8	12.5	28.3	25.4	22.3

Note: Farm products include farm products and processed foods and feeds. Crude materials exclude crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco and intermediate materials exclude intermediate materials for food manufacturing and manufactured animal feeds. Data for the finished goods total are estimated and exclude foods. Consumer finished foods are foods in their final state ready for use by consumers and include some commodities in the farm products group and most commodities in the group for processed foods and feeds.

Agriculture. Prices received by farmers increased 6 per cent during the month ending June 15. The increase resulted mainly from higher prices for corn, soybeans, wheat, hogs, eggs, and potatoes. On June 13, commodity prices at all off-farm marketing points were frozen at their levels of June 1-8. Since then, little price movement has been noted, except for hogs, grains, and soybeans.

Soybean prices declined sharply after export restrictions were imposed on June 27. Expected outflow of old-crop soybeans and meal would have left the domestic livestock industry far short of its high-protein feed requirements.

Export controls were extended on July 5 to cover all oilseed, oilseed meals and edible oils which substitute for soybean products. Also, demand for protein meals is partially transferable to feedgrains. The resulting uncertainty regarding the possibility of curbs on grain exports has contributed to fluctuations in corn prices.

Hog prices, which were not subject to the freeze but remain under pressure from the meat price ceilings established in March, have risen about 10 per cent since mid-June. The price ceiling on beef has kept cattle prices stable for many weeks.

June red meat supplies were about even with pre-boycott levels, but were still 9 per cent below supplies in the second quarter of last year. A recent survey of hog farmers indicates there will be no further increase in pork supplies for about a year. The tight meat supply situation will be further aggravated by declining poultry supplies, expected to fall 5 to 10 per cent below last year's level by October. High feed costs have been a major factor contributing to continued tight meat supplies and have also been associated with a 2 per cent decline in milk production from last year.

High feed costs are expected to be somewhat alleviated by ample new-crop soybean supplies. A record 55.7 million acres of soybeans have been planted, 22 per cent more than last year and 31 per cent above 1971. Corn acreage for grain is 9 per cent more than last year, but less than hoped. Feedgrain supplies may therefore continue to be tight during the new crop year.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Level	Net change from Month ago	Three months ago	Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		June	32.4	-0.5	5.4	7.9
Reserves available (RPD's)		June	30.5	15.4	11.6	10.6
Money supply						
M1		June	263.2	12.2	10.2	7.4
M2		June	545.1	10.0	9.4	9.2
M3		June	858.8	9.6	9.1	10.1
Time and savings deposits (Less CDs)		June	281.9	8.0	8.6	10.3
CDs (dollar change in billions)		June	62.1	0.4	7.2	26.3
Savings flows (S&Ls + MSBs)		June	313.7	8.9	8.7	13.8
Bank credit (end of month)		June	600.1	0.2	9.8	15.4
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	7/4/73	10.21	1.78	3.03	5.60
Treasury bill (90 day)	"	7/4/73	7.69	0.66	1.25	3.63
Commercial paper (90-119 day)	"	7/4/73	8.56	0.88	1.48	3.74
New utility issue Aaa	"	7/6/73	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	7/5/73	5.34	0.21	0.12	-0.09
FNMA auction yield	(FHA/VA)	6/25/73	8.09	0.09	0.28	0.46
Dividends/price ratio (Common stocks)	wk. endg.	6/27/73	3.09	0.07	0.22	0.19
NYSE index (12/31/65=50)	end of day	6/9/73	54.91	-3.86	-6.24	-5.42

Credit demands		Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	June	1.7	-0.5	19.6	5.2
Consumer instalment credit outstanding	May	2.0	1.3	9.4	5.6
Mortgage debt outst. (major holders)	April	4.7	4.3	17.4	14.5
Corporate bonds (public offerings)	April	0.9	1.6	3.9	7.0
Municipal long-term bonds (gross offerings)	April	1.8	2.0	7.6	8.0
Federally sponsored Agcy. (net borrowing)	July	2.6	-0.1	9.7	1.8
U.S. Treasury (net cash borrowing)	July	0.3 e	3.7	1.9 e	1.5
Total of above credits		14.0	12.3	69.5	43.6

e - Estimated

DOMESTIC FINANCIAL SITUATION

Short-term interest rates, which rose throughout June, surged in early July after announcement of a one-half point increase in the discount rate and a hike in reserve requirements. Treasury bill rates have advanced 65 basis points since the last FOMC meeting, while most other short-term rates--including the prime rate--have increased 3/4 to 1 percentage point.

Short-term rates currently are around their 1969-70 cyclical peaks. Long-term rates, however, remain substantially below their previous cyclical highs. While the sustained rise in short-term rates and the indications of tightening monetary policy weakened market expectations of a near-term peak in rates, the continuing moderate volume of corporate and municipal bond offerings helped limit the increase in bond yields to 1/4 percentage point or less.

Pressures in mortgage markets have intensified in recent weeks. With institutional commitment policies reportedly becoming more restrictive, mortgage yields have moved significantly higher. Interest rate ceilings on FHA- and VA-insured mortgages were increased 3/4 of a percentage point at the end of June, but the failure of Congress to renew the insurance program has resulted in a halt of new commitments in this sector of the housing market. The sharply increased attractiveness of yields on market securities relative to those on depositary claims resulted in some disintermediation in key regional markets over the June-July interest crediting period. Inflows of savings funds for the recent quarter as a whole, however, were surprisingly well maintained, perhaps partly reflecting the large income tax refunds and the recent slowing of consumer spending.

The bank credit proxy continued to expand at a relatively fast pace in June. Banks raised their prime rate and reportedly continued to tighten nonprice lending practices. As pressures on lendable funds increased, some banks liquidated securities. Business loan growth slowed in June, but with commercial paper increasing considerably, total short-term business credit demands remained strong.

Outlook. Interest rates do not appear to have adjusted fully to the recent further tightening of monetary policy, and credit demands are still likely to be sizable given the rate of growth projected in nominal GNP. As the effects of current monetary restraint continue to work through the system, financial institutions will no doubt undertake additional tightening of lending policies and portfolio adjustments, which will contribute to upward interest rate pressures.

At banks, demands for credit from businesses are likely to remain strong in coming months given their expanding financing requirements and the projected slowing in their generation of internal funds. Even with the liberalized Regulation Q ceiling rates, deposit flows will probably moderate and induce banks to rely on high-cost CD funds, other non-deposit sources of funds, and further reductions in liquidity positions. The pressure on lendable funds implies further upward adjustments in the prime rate and tightening of nonprice lending terms. There are scattered reports of banks not accommodating in total the credit needs of certain customers who shifted their financing from the commercial paper market earlier this year. As these borrowers and others are discouraged from financing at banks, demands on the commercial paper market especially will increase.

Corporations might also be induced to increase their capital market financing, although underwriters continue to report little interest on the part of industrial firms to enter the market at the present time. If expectations should shift to the view that long-term rates will rise and remain high for some time, the volume of corporate bond offerings could rise considerably. In the municipal market, rising rates might cause some borrowers to postpone planned offerings, particularly for projects employing long-term revenue bonds which generally carry restrictive call-protection features.

Although the Treasury will not be raising new money in the market until the fall, borrowing by Federal agencies is likely to be very heavy. The housing finance agencies, most notably the FHLB Banks, are expected to support an increased share of residential mortgage credit financing given the reduced inflows of deposits at thrift institutions. Additional cutbacks on new commitments for residential mortgages are in prospect along with rate increases on conventional mortgages appreciably larger than in recent months, except in states with restrictive usury ceilings where the supply of mortgage funds will presumably dry up.

M_2 and M_3 also grew at more rapid rates in June than in other recent months, but the more rapid growth in these aggregates reflected entirely the faster growth in M_1. Commercial bank time deposits other than large negotiable CD's slowed to a 7.5 per cent rate of increase, as the interest rates paid on these deposits under Regulation Q ceilings became increasingly less attractive to investors compared to the rising rates available on market securities. To permit these time deposits to be more competitive, effective July 1 ceiling rates were increased on regular savings deposits by one-half percentage point and on small-denomination time deposits by one-fourth to three-fourths of a percentage point on most maturities; ceilings were suspended entirely on minimum deposits of $1,000 with maturities of four years or more.

In order to shed light on the response by banks to the change in Regulation Q, an informal survey was made through the Reserve Bank Contact Group. Most of the banks contacted reported that offering rates had immediately been adjusted upward to the new ceiling levels on time deposits, although a few large banks were still paying 4.5 per cent on passbook accounts. Respondents generally were still uncertain as to the rates which would be offered on the new accounts with maturities of four years or more. While a few banks suggested 7 to 7.5 per cent as possibilities, others reported that they probably would not offer more than 6.5 per cent, depending on the rates offered by competitiors.

Monetary aggregates. In June, M_1 increased at a 12.5 per cent annual rate, even more rapidly than in May. Preliminary data indicate that deposit growth during the month was widely distributed among both large and small banks. The June expansion in M_1 brought the annual rate of increase for the first two quarters of 1973 to about 6 per cent.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972	1973				
	QIV	QI	QIIp	April	May	June p
	Per cent at annual rates					
M_1 (Currency plus private demand deposits)	8.6	1.7	10.5	7.5	10.7	12.5
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	10.2	5.7	9.5	8.1	9.8	10.0
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	11.5	8.6	9.1	8.4	8.8	9.6
Adjusted bank credit proxy	12.1	15.0	12.0	13.1	12.1	11.0
Time and savings deposits at commercial banks						
a. Total	14.4	23.1	16.0	21.0	18.2	7.5
b. Other than large CD's	11.6	9.5	8.5	8.7	9.1	7.5
	Billions of dollars 1/					
Memorandum:						
a. U. S. Government demand deposits	.5	.3	- .8	- 1.6	- 1.2	.5
b. Negotiable CD's	1.1	3.9	2.4	3.8	3.0	.4
c. Nondeposit sources of funds	.1	.2	.2	.2	.3	.2

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

Growth in large negotiable CD's slowed in June to the smallest rate of increase in eight months. This slowdown appears to have been due to a combination of factors. With demand deposit inflows stronger and loan expansion weaker (discussed below), banks needed less growth in purchased funds than in other recent months. In addition, there were unusually large CD runoffs associated with the mid-month income tax payments. Moreover, banks incurred increasingly higher costs for funds, with rates advancing another 50-75 basis points during the month, although the advance barely kept pace with yields on other market instruments. The effective cost of CD funds to banks was increased further by the imposition of an additional 3 per cent marginal reserve requirement on net sales of these instruments--possibly contributing to the slower June growth. Reflecting the mid-May suspension of ceiling rates on longer maturity CD's, which was coupled with imposition of marginal reserve requirements, the average maturity on new issues of CD's increased from 2.2 months in May to 2.4 months in June.

Following substantial declines in the previous two months, there was a moderate increase in U. S. Government deposits in June. However, this rise along with the growth in private demand deposits only partially offset the slower growth in CD's and other time deposits. Consequently, growth in the adjusted bank credit proxy slowed to an annual rate of about 11 per cent in June, somewhat below the 14 per cent rate of earlier months.

Bank credit. Following five months of rapid growth, seasonally adjusted bank credit, as measured on a last-Wednesday-of-the-month basis, showed almost no growth in June. This abrupt slowdown is in sharp contrast to the continued rapid though reduced expansion in the daily-average adjusted credit proxy noted above. However, the disparities in the month-to-month changes in these two series frequently are the result of random fluctuations or seasonal adjustment problems in the single day measurement of the last-Wednesday series, and estimating end-of-month window dressing is an additional complication in June. Thus, a better measure of the underlying trend in last-Wednesday-of-the-month bank credit data is provided by the 11 per cent average growth rate over the May-June period combined.

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

	1972	1973			
	QIV	QI	QII	May	June
Total loans and investments 2/	16.4 (17.0)	18.4	9.8	22.6 (21.8)	.2 (2.4)
U. S. Treasury securities	2.6	-11.5	1.3	-19.8	24.2
Other securities	12.0	1.0	2.7	21.6	- 7.1
Total loans 2/	20.3 (21.2)	28.6	13.0	29.4 (28.3)	- 1.1 (2.0)
Business loans 2/	15.5	39.1	20.3	24.6	13.7
Real estate loans	19.2	15.9	15.7	17.5	16.1
Consumer loans	19.0	17.6	14.2	17.8	14.4

1/ Last-Wednesday-of-month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

Note: Data is parentheses are adjusted to exclude System matched sale-purchase transactions.

Total loans in June declined $400 million, bringing the May-June net expansion to an annual rate near 14 per cent. The weakness in June reflected, in part, a sharp decline in security loans, apparently associated with a reduction in dealer inventories.

Loans to nonbank financial institutions also were substantially weaker in June following the sharp surge in May. This slowdown apparently was associated in part with reduced borrowing by mortgage companies, which are reported to have been reducing their inventories of mortgages because of exceptionally high financing costs and the expectation of rising mortgage interest rates.

Though strong, the June expansion in business loans--at a 14 per cent annual rate--was considerably less than the exceedingly rapid increases of earlier months. Some of this slowing no doubt resulted as banks responded to the rising costs and reduced availability of funds by making substantial upward adjustments in the large business prime rate (100 basis points over the month to 8-1/4 per cent in early July) and by applying more restrictive nonprice lending terms. In addition, corporate borrowing to finance quarterly tax payments appeared to be somewhat lighter than in previous years as the proceeds of a large volume of maturing CD's became available close to the mid-month tax date.

While business loans grew less rapidly in June, preliminary estimates indicate that dealer-placed commercial paper outstanding rose substantially, perhaps indicating some switch of borrowers back into the commercial paper market. Thus, total business demand for short-term credit, as measured by the sum of business borrowings at banks plus commercial paper, remained strong. As shown in the table, the 21 per cent growth rate in total short-term business credit in the second quarter was only slightly less than the rapid first quarter pace.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER 1/
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business loans at all commercial banks 2/	Dealer-placed commercial paper 3/	Total 3/	Annual percentage rate of change in total 3/
		Average monthly changes		
1972--QI	1.0	--	1.0	9.9
QII	.8	.3	1.1	10.3
QIII	1.3	- .1	1.2	10.7
QIV	1.6	- .2	1.4	12.7
1973--QI	4.3	-1.3	3.0	24.9
QII	2.4	.2 e/	2.6 e/	20.8 e/
January	3.9	- .3	3.6	30.2
February	5.3	-1.9	3.4	27.8
March	3.6	-1.7	1.9	15.2
April	2.6	- .1	2.5	19.8
May	3.0	--	3.0	23.3
June	1.7	.7 e/	2.4 e/	18.3 e/

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Data revised in accordance with recent revision in commercial paper outstanding.
e/ Partially estimated.

Although banks reduced their holdings of municipals and "other" securities in June, U. S. Government security holdings increased, on a seasonally adjusted basis, reflecting in part the smaller than usual volume of bank holdings of June tax bills, which ran off at maturity.

<u>Nonbank financial institutions</u>. Deposit inflows at mutual savings banks and savings and loan associations appear to have been stronger during May and June than many observers expected in light of rising market yields. May inflows at the two sets of thrift institutions combined were at a 9.3 per cent annual rate, as compared with the 8.0 per cent rate estimated in the last Greenbook. Based on sample data, the inflows during June are now estimated at an 11 per cent rate for S&L's and an 8 per cent rate for MSB's.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(SAAR, in per cent)

	MSB's	S&L's	Both
1972 - QIII	11.7	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QII e/	5.5	9.5	8.0
1973 - April	5.0	7.0	6.4
May p/	6.1	10.7	9.3
June e/	8.0	11.0	10.0

e/ Estimated.
p/ Preliminary.

Pressures toward disintermediation however, may have begun to manifest themselves in the latter part of June and in early July. Deposit outflows at large New York City MSB's during the June grace period were the largest since 1970, and there were very sizable outflows (more than twice those of 1970) on the first business day of July. A sample group of California S&L's reported marked outflows during the last week of June and extremely weak inflows during the first week of July; nationally, only interest crediting prevented a small decline in S&L savings capital during the last 10 days of June.

The confluence of heavy takedowns from a record level of mortgage commitments and declining inflows of new money has led S&L's to reduce their liquidity and increase their indebtedness to the FHLBanks. Cash and liquid assets of insured S&L's declined in May, the most recent month for which balance sheet data are available, pushing the liquidity ratio of these institutions below 9.3 per cent, compared with the recently reduced FHLBB minimum of 6.5 per cent. One year ago the May ratio was 10.3 per cent, and two years ago it was 11.4 per cent. FHLBank advances to S&L's rose $900 million in June and increased at a rate of $280 million per week in the last week of June and first week of July. Since the beginning of the year, advances outstanding have risen more than $3.1 billion to a record high level. The heavy volume of advances is cutting deeply into FHLBank liquidity, which will not be boosted until July 25 by the proceeds of a $1 billion cash financing.

The new deposit rate ceilings, established July 5, give thrift institutions more scope to compete for savings, but the gap between market rates and ceiling rates on shorter-term deposits is sizable. Also, under the new regulations the ceiling rate on S&L passbook accounts is only 25 basis points higher than that on commercial bank passbooks, as opposed to the previous 50 basis point differential. How depositary institutions will respond to the new ceilings and, in particular, to the new 4 year and over no-ceiling option is as yet unclear. Reports in the press indicate that the limited number of institutions taking quick action on rates have employed rather diverse strategies, and there undoubtedly will be a lag before competitive forces bring about an "equilibrium" rate structure.

Commercial paper outstanding. Total commercial paper outstanding rose an estimated $1.5 billion seasonally adjusted in June, the largest monthly increase since June 1972. Nonbank-related dealer placed paper expanded $0.7 billion during the month, reversing the January to May contraction, which totaled $4.0 billion. To some extent, the June increase reflected the reported return to the paper market of some firms that had earlier shifted to less costly bank financing. Although the effective cost of bank borrowing in many cases remained below the cost in the commercial paper market, banks apparently were discouraging credit extensions to certain of these customers.

In the directly placed market, finance companies expanded their use of commercial paper in June as in other recent months.

Total nonbank-related directly placed paper outstanding increased $.6 billion seasonally adjusted.

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted in billions of dollars[1/])

	Estimated amount outstanding June 30, 1973	Estimated change in: June	QII	QI
Total commercial paper outstanding	36.4	1.5	2.5	-1.5
Bank-related	4.3	.2	.8	.8
Nonbank-related	32.1	1.3	1.7	-2.4
Dealer placed	8.6	.7	.6	-3.9
Directly placed	23.5	.6	1.1	1.6

1/ Seasonally adjusted figures are not available for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.
NOTE: Components may not add to total due to rounding.

Consumer credit. In May, total consumer credit outstanding increased at a seasonally adjusted annual rate of $26.7 billion, up considerably from April, but still below the near-record March increase. The April-May average credit expansion continued to represent an unusually strong rate of growth, both absolutely and relative to the amount of debt outstanding, but was marginally below the pace of the previous two quarters.

Seasonally adjusted extensions of instalment credit during May reached a new high annual rate of $167 billion, while repayments, at a $143 billion rate, were down slightly from April's record pace. The increase in personal instalment loans extended was particularly strong. Although a loan drive at a major finance company accounted for part of this increase, personal loans extended by banks and credit unions also expanded strongly. Extensions of automobile credit also rose fairly sharply from April, reflecting in part the pick-up in new car sales.

Finance rates on consumer instalment loans, which have shown little tendency to rise in recent months, edged upward in some categories during May. The average rate on new-auto contracts at major auto finance companies rose another 3 basis points to 11.91 per cent, exceeding the year-earlier level by a small margin. At commercial banks, no movement towards higher rates on direct new-auto loans is yet evident, but rates on mobile home loans apparently rose significantly during May.

Non-rate terms on new-auto loans continue to be liberalized gradually at the major auto finance companies, where the weighted average maturity moved up in May to 35.3 months. About 2.7 per cent of new car loans made by finance companies in May had maturities exceeding 36 months, up from 0.6 per cent a year ago and 1.5 per cent in January this year.

Although some recent loan delinquency statistics suggest that consumers may be having greater difficulty keeping their loans current, personal bankruptcies have shown a different pattern. Personal bankruptcies declined more than 7 per cent on a seasonally adjusted annual basis in the first quarter, and were 21 per cent below the peak in the third quarter of 1970, continuing a downtrend that has persisted for over two years. Provisions of the Consumer Protection Act of 1970, which limit the percentage of salaries and wages that can be garnished and restrict employers' freedom to fire employees whose wages are garnished, have reduced the necessity for resorting to bankruptcy and thus probably have contributed to the magnitude of the decline.

Short-term markets. Short-term interest rates have increased substantially since the last FOMC meeting. Rates on 3- and 6-month Treasury bills, for example, are now both at 7.89 per cent, about 65 basis points above their levels at the time of the meeting, and the gains in private short-term rates generally have exceeded the bill rate increases. The highest rates currently being quoted in the three month maturity range on prime bankers' acceptances (9.25 per cent), large negotiable certificates of deposits at New York City banks (9.25 per cent) and prime commercial paper (9.00 per cent) are all about 100 basis points higher than prevailed 4 weeks ago, and there are reports that even higher rates must be paid to do a substantial volume of business. Also bank prime rates are now at 8.25 per cent, up 75 basis points. As a result of these latest advances, short-term rates generally are near--and in a few cases are above--their previous record highs established in late 1969 or early 1970.

While interest rates have increased almost continuously since the last Committee meeting, the uptrend was the sharpest in late June and early July. Market participants, noting the continued strength in M_1, began marking rates up in expectation of possible System policy actions. Confirmation of these expectations, provided by the Board's action on Friday, June 29, gave rise to further sharp rate increases in the early part of last week. Rates were sustained at these higher levels by much tighter conditions in the Federal funds market, as reflected by funds trading at rates as high as 15 per cent and effective rates of 10 per cent and 13 per cent on Monday and Tuesday. While market participants recognized that these exceptionally high rates were the result of market churning associated with an end-of-quarter statement date and mid-week holiday, they nonetheless concluded that the System had assumed a tighter stance in its provision of reserves through open market operations. Conditions in the funds market eased to some extent following the fourth of July holiday--although the effective funds rate remained around 9.50 per cent--and short-term Treasury bills rates stabilized, at least temporarily. Private short-term rates, however, have continued advancing in recent days.

The Government securities market appears to have emerged from the substantial tightening of credit market conditions in good technical position. Dealer positions in both bills and coupon issues are currently on the low side, as they were prior to the sharp run-up in interest rates. And, while capital losses were incurred by many firms, the size of these losses appears to have been held to manageable amounts.

The volume of noncompetitive bids submitted in the Treasury's weekly bill auction has increased significantly in recent weeks. The volume of such bids in the auction of July 9, for example, totaled $613 million, about $300 million higher than the average during the auctions in May. The current level of bids, however, remains well below highs established in late 1969 and 1970.

INTEREST RATES ON U.S. TREASURY SECURITIES
(Per cent)

	Daily rates				Change
	June 19	June 26	July 3	July 10	June 19-July 10
Treasury bills	7.27	7.26	7.98	7.89	.62
3-month	7.25	7.33	7.94	7.89	.64
6-month	6.98	7.18	7.64	7.64	.66
1-year					
Notes and Bonds					
(Constant Maturity)					
1-year	7.29	7.41	8.05	8.13	.84
5-year	6.66	6.76	7.03	7.11	.45
7-year	6.78	6.86	7.00	7.05	.27
10-years	6.87	6.93	7.01	7.05	.18
20-years	7.05	7.11	7.17	7.19	.14

	Statement week ended				
	June 20	June 27	July 4	July 11 1/	Change--week ending June 20 to week ending July 11
Memorandum:					
Federal funds					
(daily average)	8.55	8.59	10.21	9.65	1.10

1/ Average for first 6 days of the week.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily rates				Change
	June 19	June 26	July 3	July 10	June 19-July 10
Commercial paper					
90-119 day	8.13	8.25	8.75	9.00	.87
4-6 month	8.00	8.25	8.75	8.88	.88
Large negot. CD's 1/					
Just under 3 mos.	8.25	8.63	9.10	9.25	1.00
6 mos.	8.05	8.50	8.75	9.00	.95
Bankers' accepts.					
61-90 day	8.38	8.50	9.25	9.25	.87
150-180 day	8.38	8.50	9.25	9.25	.87
Federal agencies					
1-year	7.59	7.75	8.25	8.55 2/	.96
Bank prime rate					
(most prevalent)	7.50	7.75	8.00	8.25	.75

1/ Highest quoted new issue.
2/ As of July 9.

Long-term securities markets. Yields on new private long-term debt securities have risen from 10 to 20 basis points above their mid-June levels, with most of the advance occurring in early July. As money market rates surged in response to Federal Reserve actions, market expectations of a near-term peak in interest rates seemed to fade, and prices on inventories of corporate and municipal bonds were marked down. Yields on long-term Treasury bonds also increased about an eighth of a percentage point since the June Greenbook.

Corporate offerings of public bonds in June amounted to a little over \$1.2 billion, and the July and August calendars are estimated

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds1/	Recently offered Aaa utility bonds1/	Long-term State and local bonds2/	U.S. Government bonds (10 year constant maturity)
1969-1970				
High	9.43(6/19/70)	9.20(6/26/70)	7.12(5/29/70)	8.06(5/29/70)
1971				
High	8.26(7/30)	8.19(1/2)	6.23(6/24)	6.89(7/20)
Low	7.02(2/5)	7.14(12/31)	4.97(10/21)	5.87(1/14)
1972				
High	7.60(4/21)	7.46(4/21)	5.54(4/13)	6.58(9/27)
Low	6.99(11/24)	7.21(12/1)	4.96(12/7)	5.87(1/14)
1973				
High	7.73(6/29)	7.81(7/6)	5.35(3/23)	7.01(7/6)
Low	7.29(1/12)	7.28(1/5)	5.00(1/19)	6.42(1/3)
June 1	7.55	7.60	5.22	6.94
8	7.63	7.59	5.13	6.92
15	7.59	7.60	5.13	6.86
22	7.66	7.69	5.19	6.89
29	7.73	7.72	5.25	6.93
July 6	--*	7.81p	5.34	7.01p

1/ FRB series.
2/ Bond Buyer.
* No observations available for new issues rated A or higher that meet the criteria for inclusion in the series.
p/ Preliminary.

at about $1 billion each. Thus far no buildup in corporate filings has occurred, although underwriters expect the volume of offerings to increase sharply in the Fall. Not only will the need to finance projected capital expenditures bring corporations to the debt market, but some firms may be encouraged to issue bonds by the increased stringency in the bank loan market. Furthermore, although corporate liquidity is much improved in relation to late 1969 and 1970, it is still well below the levels of the early 1960's.

Takedowns of private placements increased to $700 million in April, the last month for which SEC figures are available. Life insurance commitment data indicate that this high level of activity is continuing into the summer months, and several large industrial companies recently have announced private placements of long-term debt. The available data indicate that interest costs of private placements to borrowers continue to be low relative to costs of public issues.

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

		1973			
	1972	1st half e/	June e/	July f/	Aug. f/
Corporate securities					
Total	3,398	2,742	3,025	2,250	2,500
Public bonds	1,528	1,018	1,225	900	1,000
Privately placed bonds	780	673	1,000	700	700
Stock	1,087	1,067	800	650	800
State and local gov't. securities	1,970	1,912	1,900	1,800	1,700

e/ Estimated.
f/ Forecast.

Staff estimates that new equity issues are likely to average below $1 billion monthly during the summer reflect the drop in utility preferred stock schedulings and the impact of a prolonged slump in stock prices on initial public offerings. Stock prices moved irregularly lower throughout the month of June but ended the month only slightly lower than at the end of May. Prices declined further to new lows early in July, however, when interest rates rose sharply and the international financial situation deteriorated. The relaxation of dividend restrictions had little apparent effect on the major stock price indexes. The CID action, however, did precipitate a marked one-day increase in NYSE trading volume to 18.5 million shares on the day following the announcement, as compared to a June average of 12.8 million.

Offerings of long-term tax exempt bonds totaled $1.9 billion in June, and the staff expects some tapering in the volume of issues during the summer. Yields, as measured by the Bond Buyer index, rose about 20 basis points during the last few weeks; and the index is now near its 1973 high. Underwriters report fairly heavy selling of shorter-term municipals by large commercial banks recently, reflecting increased pressure on the availability of bank lendable funds.

Short-term tax-exempt securities outstanding rose about $228 million during the second quarter, but over the first six months of 1973 as a whole, such securities declined by more than $1 billion.

Mortgage market. During recent weeks, new mortgage commitment volume has declined somewhat further and rates on both construction and permanent mortgage loans have continued upward, judging from trade opinion and field reports. Insured S&L's--the dominant residential mortgage lender--apparently cut back on the volume of new mortgage commitments again in May to a level sharply below the January high, according to Federal Reserve estimates. Outstanding mortgage commitments, which are reported directly by S&L's, were down further in May to a seasonally adjusted level 7 per cent below the peak reached early this year.

Interest rates on conventional home mortgages in the primary market accelerated their uptrend shortly after increases were announced in the rate ceilings applicable to consumer-type savings deposits and to FHA/VA mortgages. According to the weekly Federal Home Loan Mortgage Corporation series for 120 S&L's, contract interest rates offered on new commitments for typical 80 per cent loan-to-value ratio conventional home mortgages averaged 7.89 per cent in the week ended July 6--up 13 basis points above the week-earlier level and up 16 basis points above a month earlier. On the West Coast, new commitment rates on 80 per cent conventional loans were raised in early July to 8-1/4 per cent by some lenders. The HUD (FHA) series for late June should be available for the Greenbook supplement. Early returns indicate that the series average for contract rates paid by borrowers on all types of conventional new-home mortgage commitments was somewhat above the 7.95 per cent level reported in late May.

Faced by increasingly large discounts on fixed-rate FHA and VA mortgages that had begun to discourage transactions, the Secretary of HUD and the Veterans Administrator on July 5 announced an increase to 7.75 per cent from the 7 per cent rate that had been in effect for such mortgages since February 1971. However, mortgages can be underwritten at the new higher rate only after Congress reactivates the FHA and the VA insurance authority that lapsed at the end of June.

Reflecting increasing yield pressures in the mortgage market generally as well as uncertainty about private lender reception of Government underwritten mortgages that would bear the new higher ceiling rate, the average auction yield on FNMA forward commitments to purchase

FHA/VA home mortgages increased sharply to 8.38 per cent on July 9--up 29 basis points from the figure two weeks earlier and the highest level since December 1970. Offerings to FNMA reached the largest volume since August 1971, owing partly to the suspension, effective July 5, of the discount subsidy program under which GNMA had supported the price of eligible Government underwritten mortgages in order to prevent excessive discounts.

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Total offers		Per cent of offers accepted	Yield to FNMA 1/ (per cent)
	Received (millions of dollars)	Accepted		
1972 - High	365(5/1)	336(5/1)	92(5/1,7/24)	7.74(10/30)
Low	61(11/27)	36(11/27)	42(3/20)	7.53(3/20)
1973 - Feb. 5	129	65	51	7.71
20	110	72	65	7.73
Mar. 5	171	108	63	7.75
19	297	169	57	7.81
Apr. 2	235	146	62	7.86
16	217	191	88	7.89
30	261	186	71	7.92
May 14	258	188	73	7.96
29	212	140	66	8.00
June 11	185	142	77	8.04
25	199	119	60	8.09
July 9	539	245	46	8.38

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, a assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Agricultural credit. Growth in farm mortgage debt outstanding has continued to reflect higher land prices and the well-above-average number of farm transfers. At Federal Land Banks which account for approximately one-fourth of all outstanding farm mortgage debt, holdings of farm mortgages at the end of May were $1.6 billion, or 19 per cent, larger than a year earlier. FLB loans closed during the 12 months ending in May were up by 60 per cent over the preceding 12-month period, with the number of loans and the average loan size each up by 25 per cent. At the same time, mortgage interest rates charged by the Federal Land Banks have remained stable since August of 1972.

Demand for farm production credit also has continued strong as farmers have borrowed funds to finance higher-priced feed and livestock inventories as well as increased crop production. At production credit associations (PCA's), new-loan volume during the first five months of 1973 averaged 24 per cent above the same period of 1972. Unlike the long-term Federal Land Bank loans, interest rates on short-term PCA loans have been rising steadily since mid-1972 and in June 1973 were typically between 7-1/2 and 8-1/2 per cent. Interest rates charged by commercial banks on farm production loans also have increased during the same period.

Federal Finance. Final budget figures for fiscal 1973 are not yet available. Based on preliminary estimates of June activity, however, it appears that the fiscal 1973 deficit will be about $16.2 billion, with outlays at $248.7 billion, about $1.0 billion less than had been expected, and receipts at $232.5 billion, a figure unchanged from the preceding two Greenbooks. The corresponding official Administration estimates were $249.7 billion for outlays and $232.0 billion for receipts.

For fiscal 1974 the forecast is still one of a budget close to balance. In spite of the recent spurt of legislation authorizing increases in spending (see table) our fiscal 1974 budget outlays projection remains at $269.7 billion. Among the new spending authorizations are welfare benefit increases and a 5.6 per cent social security benefit increase effective June 1, 1974 but to be paid beginning July 1, 1974. Together, the effect on fiscal 1974 outlays is about $0.7 billion, and compares with the $1.0 billion spending in excess of the Budget already allowed for in the staff projections. The fiscal 1975 effect of these authorizations is estimated at $2.8 billion, of which all but $0.6 billion is for social security and was anticipated in the estimates presented at the June meeting.

The proposed spending ceiling of $268.7 billion for fiscal 1974 was not included in recent legislation. However, a new temporary (through November 30, 1973) debt ceiling of $465 billion has gone into effect. While this relatively low ceiling may exert some downward pressure on the pace of outlays during the next few months, the general features of Congressional influence on the Budget remain largely unresolved, since no appropriation bills have as yet been passed and the Federal agencies mostly are operating on the basis of continuing resolutions.

On the receipts side, the effect of reductions in staff forecasts of personal income has been largely offset by an increase in receipts of $0.5 billion stemming from the recent relaxation of restrictions on dividend pay-out ratios by the Committee on Interest and Dividends. Our fiscal 1974 budget receipts forecast is $269.8 billion.

The end-of-June Treasury cash balance was $12.6 billion, a figure $0.6 billion above that projected in the June Greenbook. Our current projection of the end-of-July cash balance is $7.2 billion. The temporary debt ceiling of $465 billion should pose no serious problems for the Treasury over the near-term. Cash balances may be sufficient to allow postponement of additional net borrowing from the public until November. While the debt subject to ceiling will continue to move toward the limit due to the sale of special issues to the trust funds, it is not expected to reach it until November, although, given the seasonal pattern of sales to the trust funds, it may come close in late August. In mid-August the Treasury will need to refund $4.7 billion of maturing issues held by the public.

Table I

RECENT LEGISLATION INCREASING FISCAL YEAR
1974 AND 1974 OUTLAYS AND RECEIPTS

	Estimated fiscal year impact (In millions of dollars) 1974	1975
I. Outlays		
A. Provisions affecting Old-Age, Survivors, and Disability benefits:		
5.6 per cent cost-of-living benefit increase	--	1,900 1/
Exempt amount of earnings increased from $2,100 to $2,400	100	300
B. Provisions affecting the Supplemental Security Income Program (aged, blind, disabled, etc.)	50	415
C. Provisions relating to Medicaid	97	44
D. Postponement of H.E.W. Social Service Grants Regulation	300 2/	--
E. Extension of Unemployment Benefits	116	--
Total outlay effect	663	2,659
II. Receipts		
Taxable earnings base increase from $12,000 to $12,600 effective Jan. 1, 1974 3/	100	1,100

1/ Seven month cost of a 5.6 per cent increase. A cost-of-living benefit increase is required by law in January 1975, and this will substitute for the temporary increase shown above. Full-year cost of the 5.6 per cent increase would be $3.2 billion.

2/ Fiscal year 1974 total cost for social service grants, including the $300 million increase, is estimated at $2.1 billion, $.4 billion less than the $2.5 billion fiscal 1974 limit imposed on these grants by the Congress last fall.

3/ Previous legislation provided for an increase from $10,800 to $12,000 effective Jan. 1, 1974, which will yield an additional $.3 billion and $2.5 billion respectively in fiscal 1974 and 1975.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June	July	Aug.	Sept.
Total net borrowing	-2.3	0.3	-0.9	0.0
Weekly and monthly bills	-.4	-0.2	-0.2	--
Tax bills	-2.5	--	--	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	.2	--	--	--
Agency transactions, debt repayment, etc.	.4	0.5	-0.7	--
Plus: Other net financial sources a/	0.9	0.0	-0.2	0.6
Plus: Budget surplus or deficit (-)	5.8	-5.7	-0.2	6.0
Equals: Change in cash balance	4.4 b/	-5.4	-1.3	6.6
Memoranda: Level of cash balance, end of period	12.6 b/	7.2	5.9	12.5
Derivation of budget surplus or deficit:				
Budget receipts	28.8	17.8	21.6	26.5
Budget outlays	23.0	23.5	21.8	20.5
Maturing coupon issues held by public	--	--	4.7	--
Sales of financial assets	0.3	0.4	0.1	0.6
Budget agency borrowing	0.1	0.4	--	--
Net borrowing by government-sponsored agencies	1.1	2.6	0.7	0.6

a/ Checks issued less checks paid and other accrual items.
b/ Actual

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

	Fiscal 1973 e/		Fiscal 1974 e/		Calendar Years		F.R.B. Staff Estimates				
							Calendar Quarters				Half-Yr.
	Adm. Est.	F.R.	Adm. Est.	F.R.	1972	1973	1973				1974
	6-1-73	Board	6-1-73	Board	Actual	FRB e/	I*	II	III	IV	Jan-June
Federal Budget											
Surplus/deficit	-17.8	-16.2	-2.7	0.1	-17.4	-10.4	-9.5	5.8	0.1	-6.8	6.9
Receipts	232.0	232.5	266.0	269.8	221.5	250.7	55.2	71.3	65.9	58.3	145.7
Outlays	249.8	248.7	268.7	269.7	239.0	261.1	64.7	65.5	65.8	65.1	138.8
Means of financing:											
Net borrowing from the public	19.2	19.3	5.5	-3.8	15.2	3.3	8.4	-6.5	-0.6	2.0	-5.2
Decrease in cash operating balance	n.a.	-2.5	n.a.	1.6	0.2	3.8	-1.8	0.3	0.1	5.2	-3.7
Other 1/	n.a.	-0.6	n.a.	2.0	2.0	3.3	2.9	0.4	0.4	-0.4	2.0
Cash operating balance, end of period	n.a.	12.6	n.a.	11.0	11.1	7.3	12.9	12.6	12.5	7.3	11.0
Memo 2/: Sales of financial assets 3/	n.a.	4.9	n.a.	3.9	3.1	5.1	1.2	1.7	1.1	1.1	1.7
Budget agency borrowing 4/	n.a.	0.4	n.a.	n.e.	0.9	0.2	0.1	-0.6	0.4	0.4	n.e.
Sponsored agency borrowing 5/	n.a.	8.7	n.a.	n.e.	3.5	13.1	2.0	5.1	3.9	2.1	n.e.
National Income Sector											
Surplus/deficit	n.a.	-16.5 6/	n.a.	-2.5	-18.1	-3.5	-7.7	-5.3	-1.2	0.2	-4.6
Receipts	n.a.	240.4 6/	n.a.	274.1	228.6	262.0	252.3	257.7	266.1	272.0	279.1
Expenditures	n.a.	256.8	n.a.	276.5	246.8	265.5	260.0	263.0	267.3	271.8	283.7
High Employment surplus/deficit (NIA basis) 7/	n.a.	-4.5	n.a.	1.6	-1.9	-1.5	-2.2	-2.9	-1.7	0.6	3.

*Actual e--projected n.e.--not estimated n.a.--not available p.--preliminary

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

footnotes contined

3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

5/ 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.

6/ Quarterly average exceeds fiscal year total by $4.2 billion due to spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

7/11/73

STRICTLY CONFIDENTIAL (FR)

III -- T - 1

U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1972	1 9 7 3p/			
	Year	Q-I	Mar.*	Apr.*	May*
Goods and services, net 1/	-4,609	1			
Trade balance 2/	-6,912	-960	-118	80	-285
Exports 2/	-48,769	15,320	5,327	5,435	5,545
Imports 2/	-55,681	-16,280	-5,445	-5,355	-5,830
Service balance	2,303	961			
Remittances and pensions	-1,570	-400			
Govt. grants & capital, net	-3,513	-695			
U.S. private capital (- = outflow)	-8,534	-5,749			
Direct investment abroad	-3,404	-2,139			
Foreign securities	-614	47	116	-161	-4
Bank-reported claims -- liquid	-742	-1,295	88	330	-25
" " " other	-2,764	-2,051	-621	-527	-299
Nonbank-reported claims -- liquid	-492	-447	-7	3	
" " " other	-517	136			
Foreign capital (excl. reserve trans.)	10,287	578			
Direct investment in U.S.	160	247			
U.S. corporate stocks	2,268	1,288	350	139	-126
New U.S. direct investment issues	2,003	384			
Other U.S. securities (excl. U.S. Treas.)	64	66			
Liquid liabilities to:	4,776	-1,889	170	301	1,375
Commercial banks abroad	3,862	-1,910	160	119	1,252
Of which liab. to branches 3/	(178)	(-579)	(33)	(-67)	(167)
Other private foreign	810	15	-2	189	-1
Intl. & regional organizations	104	6	12	-7	124
Other nonliquid liabilities	1,016	482			
Liab. to foreign official reserve agencies	10,308	10,282	2,797	-725	71
U.S. monetary reserves (increase, -)	742	220	-5	27	-12
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	--	9	--
IMF gold tranche	153	-13	-5	18	-4
Convertible currencies	35	233	--	--	-8
Errors and omissions	-3,112	-4,237			
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,502			
" " , N.S.A.	-11,050	-9,961	-2,792	698	-59
Net liquidity, S.A.		-6,871			
" " , N.S.A.	-14,592	-6,459	-3,043	64	
Liquidity, S.A. 5/		-8,613			
" , N.S.A.	-15,826	-8,138	-2,962	397	-1,434

* 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 allocation of $710 million of SDRs 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. In recent weeks the accelerating decline of the exchange rate of the U.S. dollar against continental European currencies -- especially the German mark -- has been the dominant feature of the international financial scene. Although the dollar changed little relative to other currencies that together account for a large part of U.S. international transactions (Japanese yen, Italian lira, Canadian dollar, and sterling), there was mounting disorder in dealings in the major continental currencies. To a large extent, the effect that tightened monetary policy in the United States might have had in reassuring the exchange markets was offset by a similar tightening of monetary policy in other industrial countries. The U.S. price freeze was widely viewed as only a stop-gap.

Adding to the many anxieties overhanging the market, U.S. export restraints were put on a lengthing list of agricultural and other products to avoid severe domestic shortages in the months ahead. The effect of these restraints on actual exports is difficult to judge, since so much depends on the size of the new crops here and abroad, but the market was shocked by this abrupt turn in the most expansive sector of U.S. exports, and viewed it as a threat to prospects for further gains in the U.S. trade balance (which had worsened again in May).

Although the United States was registering a surplus on the official settlements balance in the second quarter, thanks mainly to sales of dollars by Japan, the basic balance probably worsened from the $5 billion annual rate of deficit registered in the first quarter. The trade balance improved (though June data are not yet available) in spite of a much faster rise in import than in export unit values. However, net investment income receipts were probably lower and, most importantly, there was apparently little or no net inflow to purchase U.S. securities after April, in contrast to large foreign purchases in the first quarter.

If the present set of exchange rates were to persist very long, it would be necessary to reevaluate the whole balance of payments picture. Existing exchange rates would distort trade relationships by significantly undervaluing U.S. goods, and would further complicate the problems of controlling U.S. prices. A more likely outcome is that exchange rates will soon adjust so as to become more representative of relative international costs and prices, and the balance-of-payments outlook will then focus squarely on the effectiveness of U.S. policy actions against inflation over the longer run. While it is clear that the market has now undervalued the dollar, it should also be noted that there have been some unfavorable developments since February's devaluation, especially further inflation and fears of scarcities in the United States and increasingly restrictive monetary policies abroad.

Foreign exchange markets. The principal feature of exchange market developments in recent weeks, through July 6, was the sharp depreciation of the dollar, principally against continental European currencies, and the even sharper appreciation of the German mark. (The dollar showed little change against the Canadian dollar and the yen, and the Bank of Japan continued to sell dollars except for a few days preceding July 9.) Behind the divergent movements of the dollar and the mark was the market's preception of the outlook for inflation and the balance of payments of the German and American economies. The market was clearly convinced that Germany's anti-inflation policies were likely to be more successful than those so far undertaken by the United States, with obvious implications for the balance of payments of the two countries. In addition, U.S. selective export controls were seen as directly hurting the U.S. balance of payments position.

WEIGHTED AVERAGE EXCHANGE RATE CHANGE
(Based on May, 1970 par values)

Period	$	£	C$	DM	SF	FF	JY
1972 December	-9.3	-10.6	0.5	7.1	7.6	1.2	11.8
1973 February	-14.0	-11.2	-3.8	9.9	16.6	4.1	17.7
March	-17.4	-12.4	-7.1	14.6	17.8	6.9	21.2
April	-16.3	-11.0	-6.5	14.8	18.1	7.0	20.1
May	-17.4	-10.1	-7.4	15.7	19.6	7.9	19.3
June 6	-19.7	-10.6	-9.2	20.1	21.0	10.2	17.1
27	-20.6	-11.3	-10.2	24.8	21.1	11.5	15.1
July 4	-22.3	-12.8	-11.9	29.8	24.6	12.5	13.5
11	-23.3	-14.6	-12.7	32.9	28.4	14.5	13.3

by press reports out of Zurich indicating that the U.S. would soon intervene to support the dollar. On Tuesday the rally continued, buoyed by the announcement of a $6.2 billion increase in the size of the swap network and heightened market expectations of System intervention.

The System, in fact, did go into the market on Tuesday afternoon, and that afternoon and the following morning sold small amounts of German marks, French francs, and Belgian francs. (System intervention STRICTLY CONFIDENTIAL) On Wednesday morning, the dollar's advance persisted, so that by mid-morning in New York, the dollar had appreciated about 6 per cent against the mark and the Swiss franc and 7 per cent against the French franc from the previous Friday afternoon, bringing rates back to around the levels of end-June. As of Wednesday morning, the mark was 52 per cent, the Swiss franc 52 per cent, and the French franc 34 per cent above their May 1970 dollar par values.

Euro-dollar market. Under the influence of rising interest rates in the United States, rising interest rates abroad, and -- especially in recent days -- speculative selling pressure on the dollar in exchange markets, Euro-dollar interest rates have moved up sharply during the past four weeks. During the week ended July 4, Euro-dollar deposits of one-month maturity were bid at an average rate of nearly 9 per cent, an increase of over 1/3 percentage point from levels in the first half of June. The increase in United States CD rates was also pronounced during this period and the amount by which the one-month Euro-dollar rate exceeded the comparable maturity CD rate declined from an average of nearly 1 percentage point in the week ended June 13 to an average of less than 1/2 percentage point in the week ended July 4. The overnight Euro-dollar rate has been below the Federal funds rate almost continuously since the middle of June. However on most days this differential has been sufficiently small so that U.S. banks have found overnight Euro-dollar borrowing subject to the 8 per cent marginal reserve requirement slightly more expensive than Federal funds borrowing during this period.

U.S. banks have apparently increased their use of Euro-dollars as a source of funds in response to the reduction in the marginal reserve requirement rate on Euro-dollar borrowing from 20 to 8 per cent. In the four weeks ended June 6 (the first computation period during which the lower rate was in effect) average daily borrowings by U.S. banks from their foreign branches were $150 million higher than in the previous 4 week period. Some small further increase seems to be indicated by weekly figures.

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 3/	(6) Differ-ential (4)-(5)(*)	
1973-Jan.	5.72	5.94	-0.22(1.21)	5.97	5.50	0.47	(1.67)
Feb.	9.03	6.58	2.45(4.71)	7.70	6.03	1.67	(3.28)
Mar.	9.19 4/	7.09	2.10(4.40)	8.79	6.63	2.16	(3.79)
Apr.	7.43	7.12	0.31(2.17)	8.00	6.91	1.09	(2.73)
May	7.74	7.84	-0.10(0.57)	8.16	7.10	1.06	(1.40)
June	8.19	8.49	-0.30(0.41)	8.66	7.88	0.78	(0.85)
1973-June 6	7.45	8.43	-0.98(-0.33)	8.59	7.63	0.96	(1.31)
13	8.29	8.17	0.13(0.84)	8.65	7.75	0.90	(0.98)
20	8.00	8.56	-0.56(0.14)	8.65	8.00	0.65	(0.70)
27	8.23	8.59	-0.36(0.36)	8.84	8.13	0.71	(0.77)
July 4	8.41	10.22	-1.81(-1.08)	8.97	8.50	0.47	(0.51)
11 p	9.39	9.69	-0.30(0.52)	9.85	8.50	1.45	(1.47)

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 rates.

3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City.

4/ 8.07 excluding March 29. A technical anomaly involving a quarter-end squeeze on dollar balances raised overnight Euro-dollar borrowing to 60 per cent on that date.

*/ Differentials in parentheses are adjusted for the cost of required reserves. U.S. banks' Euro-dollar borrowings in excess of their reserve-free bases are subject to a marginal reserve requirement which was at a 20 per cent rate through May 9 and has been 8 per cent since. The marginal reserve requirement rate on CD's has also been 8 per cent since June 6, raised from 5 per cent previously.

p/ Preliminary.

U.S. balance of payments. With the exchange rate of the dollar moving sharply down against continental European currencies, and only Japan intervening on a substantial scale to avoid a decline in the yen rate, the traditional over-all measures of balance have relatively little meaning. For instance, In June the official settlements balance probably registered a surplus of \$1/2 billion or more, representing primarily sales of dollars by the Japanese authorities but also by non-G-10 countries; for the second quarter as a whole this balance was a surplus of perhaps \$1-1/2 billion, in contrast to the \$10-1/2 billion deficit (not an annual rate) in the first quarter.

A more meaningful measure under present circumstances would be the basic balance -- the sum of current and long-term capital transactions -- but it is not yet clear how this balance moved in the second quarter. In the first quarter, the basic balance was in deficit by \$5 billion at an annual rate, but in the second quarter the rate of deficit on this basis was probably considerably higher.

The U.S. trade balance for April-May showed considerable improvement (as described below) with the deficit dropping to an annual rate of \$1-1/4 billion compared with a rate of nearly \$4 billion in the first quarter. Some of this improvement was probably offset by a reduced surplus on income account mainly because of larger interest payments on U.S. debts.

However, a major change occurred in private securities transactions, which registered an extraordinarily favorable net inflow of $1-3/4 billion in the first quarter (not at an annual rate) but were probably about in balance in the second quarter. In May foreigners sold, net, about $125 million of U.S. stocks; in April, foreign purchases totaled about $140 million, and they had averaged about $400 million per month in the first quarter. Brokers report continued net stocks sales by foreigners in the first part of June. Sales of offshore U.S. bonds to private foreigners have also fallen off sharply, following heavy sales through April, and were reported to be virtually nil in June. U.S. net purchases of foreign securities continued at a low level in May and June; purchases of new Canadian bond issues may pick up in the fall as financing is required for planned new hydro-electric projects in that country.

U.S. bank-reported claims on foreigners rose about $500 million in April-May, largely for export credits. Preliminary weekly data for June and early July indicate a further increase in bank claims on foreigners around mid-June, but no notable movement thereafter. There was also a sizable buildup during the second quarter of U.S. banks' liabilities to foreign commercial banks (including foreign branches), totalling $1.4 billion in April-May, and apparently still rising in June but at a lesser rate.

U.S. foreign trade. For May the balance of trade was in deficit at an annual rate of $3.4 billion (seasonally adjusted, balance of payments basis). This followed an April surplus of $1.0 billion (annual rate, revised). Thus, for April and May combined the trade deficit was $1.2 billion at an annual rate, down from $3.8 billion for first quarter 1973 and $6.9 billion for 1972. On a regional basis, the April-May improvement over the first quarter was dominated by a $1.1 billion reduction in our deficit with Canada and a $1.9 billion decline in our deficit with Japan (annual rates, Census basis).

The shift from an April surplus to a May deficit reflected a large increase in the value of imports, which had changed little during the first four months of the year. While import prices in May were more than 9 percent higher than in February, when exchange rates were realigned, the volume of imports, although higher than in April, was the same as in March and below the January and February levels. This suggests that the exchange rate realignments, with some help from supply limitations abroad, held down the rise in import volume that normally would have accompanied a strong domestic expansion.

Within this pattern of change in the aggregate volume of imports there were different patterns of growth among broad categories of imported goods. May import volumes were below first quarter levels for industrial supplies, automotive vehicles and parts, and consumer durables. The volume of capital good imports was roughly the same in May as in February and March, while imports of foods, feeds and beverages were almost 4 percent higher in volume than during February and March. For all these categories, May unit value indices were substantially higher than in February (when exchange rates were realigned) -- ranging from 6.4 percent greater for industrial supplies to 22.7 percent higher for automotive vehicles and parts from sources other than Canada.

The value of exports has grown steadily since second quarter 1972. Due to a decline in agricultural shipments, the volume of exports in May dipped below its April level, although it was still higher than the volumes exported during the first three months of the year. The unit value index for exports was 4.3 percent higher in May than in February.

The volume of non-agricultural exports has increased fairly steadily during the past year to a May level nearly 25 percent higher than in May 1972. The unit value of non-agricultural exports in May was 2 percent higher than in February and 7 1/2 percent greater than a year earlier. Unfilled orders for exports of machinery, which have risen steadily throughout 1973, were 5 percent higher in dollar value at the end of May than at the end of April, and 28 percent greater than a year earlier.

Among all categories of trade, the most dramatic changes have been occurring in agricultural exports, which this year have represented approximately 25 percent of the total value of U.S. exports. The unit value of agricultural exports for May was 8 percent greater than in April, 14 percent above its February level and 41 percent higher than in May 1972. The May volume of agricultural exports, which peaked in March, was down nearly 5 percent from both the April level and the average volume for first quarter 1973, but nevertheless was 36 percent higher than a year earlier.

On June 27 the Department of Commerce announced an embargo on exports of soybeans, soybean oil-cakes and meal, cottonseed, and cottonseed oil-cakes and meal. The embargo was replaced by a restrictive licensing system on July 2, which was extended on July 5 to an additional 41 related categories of agricultural commodities, including edible oils, animal fats, and livestock protein feed. These controls apply until the end of the current marketing year--end of August for soybeans; end of September for soybean meal. Their purpose is to moderate or reverse the price increases that domestic purchasers have been facing. Contracts for future exports of major grains and edible oils not subject to licensing are presently being monitored by reporting requirements, as announced on June 13 (July 6 for cotton).

On July 2 a licensing requirement was also imposed on exports of ferrous scrap, and the Japanese government announced that it will license imports of ferrous scrap and defer some purchases until 1974. We estimate that this will reduce potential 1973 export earnings by approximately $100 million.

In 1972, exports of the agricultural items now under control totalled $2.6 billion: $1.5 billion for soybeans, $.4 billion for soybean cake and meal, and $.7 billion for the 43 other items combined, only one of which (tallow) individually exceeded $100 million. The licensing system will reduce each contract for soybean exports to 50 percent of the quantity originally scheduled for delivery, and to 40 percent for soybean oil-cake and meal during the 1972/73 marketing year. This should hold soybean exports for the 1972/73 crop year near the 490 million bushels we projected last month. It is estimated that the rescinded exports of soybeans and soybean oil-cake and meal would have sold for over $400 million at May prices, although evidence of overselling casts doubt on whether the rescinded contracts could in fact have been delivered.

Whether an extension of controls will be necessary will, of course, depend upon the size of the harvest, the level of export demand, and prices within the United States. Crop estimates released on July 10 are roughly in line with those that underlie the export volumes we projected last month for the 1973/74 crop year. The monitoring reports collected by the Department of Commerce indicate that the following percentages of the projected 1973/74 exports of major crops have already been sold: wheat, 68; corn, 52; soybeans, 70; soybean meal, 90. Consequently, there is likely to be pressure to extend export controls into the 1973/74 marketing year. However, such an extension would not necessarily reduce export shipments below the historically high rates achieved during the present crop year. Moreover, even if export volumes fall below projections for 1973/74, export values might be buoyed by increases in the prices that foreigners offer to pay for our products.

Recent developments in monetary policy in selected industrial countries. Economic activity in almost all industrial countries is moving along parallel lines to a degree unprecedented in post-war history. Rates of capacity utilization almost everywhere are nearing -- or beginning to exceed -- optimum levels, and policy measures generally are directed towards slowing the pace of expansion and relieving price pressures. Prices continue to rise rapidly -- and rates of increase are historically high -- in most countries. For example, recent consumer price increases in the major industrial countries have ranged from 6 to 21 per cent (annual rates) compared to average increases ranging from 2 to 5 per cent for the period 1958-59 to 1968-69.

Although some use is being made of price/wage policies, with emphasis on price policies, and of fiscal instruments, restraint is mainly being sought through the use of monetary policy. Interest rates are now at exceedingly high levels in almost all countries, with the exception of Japan and Italy. (See the table on the following page.) The main reason why countries have been more or less free to pursue tighter monetary policies without triggering self-defeating monetary movements across international exchanges, has been the coincidence of the cycle among countries. The ability to tighten monetary policy can be ascribed also, to some extent, to greater exchange rate flexibility and to a wide variety of restraints on capital movements. But, because

INTEREST RATES FOR MAJOR COUNTRIES
(Per cent per annum, at or near end of month)

	Short-term Rates					Long-term Rates				
	Annual Averages		1972-73			Annual Averages		1972-73		
	1971	1972	Dec.	Mar.	June	1971	1972	Dec.	Mar.	June
U.K.	6.20	6.65	8.81	10.06	8.38	9.01	9.21	9.78	10.20	10.29
Germany	7.10	5.54	8.38	8.75	13.75	8.00	7.91	8.50	8.75	9.89
France	5.75	5.04	7.50	7.75	8.50	7.74	8.00	8.23	8.42	8.75
Italy	4.81	4.25	4.00	4.00	--	8.02	7.28	7.31	7.23	7.19*
Belgium	5.00	3.83	4.50	5.20	5.70	7.28	7.04	7.21	7.33	7.29
Netherlands	3.02	1.89	4.46	0.53	5.03	7.20	6.68	6.99	6.59	7.74
Switzerland	3.10	1.92	4.00	5.00	2.50	5.26	4.97	5.32	5.29	5.35
Japan	6.33	4.65	4.88	5.50	6.75	7.76	6.74	6.65	7.47	7.53*
Canada	4.54	5.63	5.13	5.13	7.00	6.95	7.23	7.12	7.30	7.74
U.S.	4.20	4.49	5.05	6.22	7.29	6.23	6.23	6.40	6.71	6.93

*April

Notes:

Short-term rates: U.K. - 90-day local authority deposits; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - 3-month deposit rate; Belgium - tap rate on 3-month Treasury bills; Netherlands - call money rate; Switzerland - 3-5 month deposit rate; Japan - call money rate, unconditional; Canada - Canadian finance company paper; U.S. - U.S. Treasury bill.

Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bonds; Italy - composite yield on all bonds except Treasury bonds (monthly average); Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4 - 4-1/2% government loans; Switzerland - Swiss government composite yield; Japan - 7-year industrial bonds; Canada - Government long-term average yield; U.S. - Government 10-year constant maturity bond yield.

interest rates have been moving in the same direction in almost all countries, the degree of insulation provided by these new circumstances has not yet been fully tested.

The main case of conflict between external flows and internal requirements, has been that of Germany. The agreement among nine European countries to keep their exchange rates within fixed relationships to each other, removed the insulation provided by exchange rate flexibility between these countries. Thus, when the DM strengthened not only against the dollar but also against European currencies, the Bundesbank was forced to make heavy purchases of the currencies of its European partners. The unwillingness of the monetary authorities to continue to provide liquidity to the market through such operations, coupled with the very strong trade position of Germany, despite repeated revaluations of the DM, led to the decision on June 29 to revalue the DM once more.

With the German revaluation and the previously expressed determination of the EEC ministers to combat inflation, further anti-inflationary measures have been taken in a number of EEC countries, as well as in Japan and Canada. (See "Chronology of Monetary Developments in Major Industrial Countries in 1973," Appendix A.)

Inflation in <u>Germany</u> remains the prime preoccupation of the German authorities. As elsewhere, rapidly rising food prices have contributed heavily to the acceleration of the inflation rate, but the increases in the non-food components of the consumer and the wholesale price indexes have also been far above the average of the past decade. Capacity utilization is now approaching peak levels and unemployment is down to 1 per cent. Order inflows, particularly to the capital goods industries, are strong both from domestic and from foreign customers, and order backlogs are rising.

Under these circumstances, the German authorities have made vigorous use of demand management instruments, both on the fiscal and on the monetary side. The stabilization package of last May (see Appendix to May Greenbook) was followed by a further tightening of monetary policy on June 1, when the discount rate was raised to 7 per cent and Lombard lending was virtually suspended.

The Bundesbank's tight money measures have exerted strong upward pressure on both short- and long-term interest rates in Germany. The most dramatic rises in interest rates occurred in the day-to-day money market. On occasion, the call money rate has fallen very low, but in early April it soared as high as 25 per cent. In mid-April, the Bundesbank sought to put a ceiling on the call-money rate by introducing an arrangement under which the Bundesbank agreed to discount domestic bills offered by the commercial banks at a rate of 12 per cent, with repurchase mandatory at the end of ten days. The Bundesbank suspended this arrangement at the end of April -- when liquidity pressures eased -- but, with the onset of a new liquidity squeeze, reactivated it, at a rate of 13 per cent, effective June 7.

There has been some moderation this year in the pace of bank credit extension. However, this slowing is not primarily a reflection of tight monetary policy in Germany. It is mainly attributable to the reduced need for bank credit by German non-bank borrowers because of the heavy capital inflows in February-March and again in June.

From mid-March, when the DM was allowed to float against the dollar, to the final days of June, the Bundesbank found that capital controls coupled with the DM float against the dollar proved a necessary, though not wholly sufficient, condition for implementation of tight money policies. But when the DM moved to the upper limit of the EEC snake, heavy support purchases of the snake currencies became necessary. Because these intervention purchases were jeopardizing the domestic stabilization program, the German government revalued the DM against the other currencies in the joint float (by raising the DM value against SDRs) by 5-1/2 per cent on June 29. This move was facilitated domestically by the large and rising trade surplus, which materialized despite the many DM revaluations of recent years.

Economic activity in France has moved along trend lines for an extended period of time, and capacity utilization is high despite rather high rates of unemployment. As in other countries, the inflation rate has accelerated in recent months reaching an annual rate of 13 per cent as measured by the wholesale price index.

These developments have led the government to adopt a series of anti-inflationary measures beginning early this year. Because of the relatively high rate of unemployment, demand management measures have concentrated on reducing internal liquidity and have been coupled with measures aimed directly at reducing price pressures, such as reductions in indirect taxation and import liberalization.

The latest acceleration in price movements prompted a further anti-inflation package announced on July 5, which included a discount rate increase from 7-1/2 to 8-1/2 per cent and a further tightening of credit restrictions. Ceilings on bank credit expansion were reduced further, and short-term personal loans by commercial banks were frozen at their July 3 level, as were loans on residential construction of second homes. In addition, corporate tax payments will be moved up from December to October. Other measures included an increase in reserve requirements on demand deposits and higher import quotas for non-EEC countries.

Presumably as a result of the credit restrictions already in effect, the level of outstanding bank credit in the first quarter of 1973 was 2.6 per cent below the level in the fourth quarter of 1972. Furthermore, in the first quarter of 1973 the money supply (seasonally adjusted) rose at an annual rate of only 3.6 per cent.

In contrast to most other countries, authorities in the United Kingdom are not pursuing an active policy of monetary restraint, in spite of the fact that some capacity limitations are being reached and prices are rising rapidly. Instead, the government is assuming that economic activity will start to slow on its own as large price rises cut into real earnings. There is some evidence that a slowdown in consumer expenditures has already begun, which would allow for expansion in other private expenditures. Some policy actions have, however, been taken. Cuts in public expenditures have been announced, partly for this fiscal year, but mostly for the year beginning in April 1974. The underlying rate of growth of the money supply has been slowed to about a 15-20 per cent annual rate -- still high, but below earlier rates of growth. And the government implemented a price/incomes policy, Phase III of which is now being discussed with labor and industry.

Also in contrast to other countries, short-term interest rates in the United Kingdom have been falling, although this partly reflects an extraordinary rise earlier in the year, and rates still remain high. A considerable degree of liquidity exists in the economy, for a variety of reasons which may, however, be temporary. A reluctance to buy long-term bonds prior to the announcement of Phase III and prior to very large government financing requirements in the fall, has contributed to the fall in short-term rates. The Government has welcomed this fall since, for political reasons (and to help gain support for its price controls), a flow of funds into the building societies would be desirable because of its damping effect on mortgage rates.

Inflation in the Netherlands, as elsewhere, is a major problem. In contrast to most other countries, however, the Dutch economy is not operating at or very near full capacity. In fact, unemployment remains, at least from the political standpoint, unsatisfactorily high. Consequently, recent monetary policy measures in the Netherlands have not been directed at fighting inflation through restraining aggregate demand.

The Netherlands Bank's discount rate was raised by 1/2 percentage point at the beginning of June, and by the same amount at the end of the month -- to 5 per cent -- but these moves were aimed at halting or slowing capital outflows, not at tightening domestic monetary conditions. At the end of June, to offset the liquidity reducing effects of the capital outflows -- which were particularly heavy at the end of the month as speculation about a revaluation of the DM mounted -- reserve requirements on commercial bank deposits, which have recently been changed from week to week, were sharply reduced.

It would appear that the burden of any program to slow inflation will fall upon incomes policy. A price "stop" has been in effect since last November, but it is a rather loose one, in that cost increases can for the most part be passed on, subject to the constraint that profit margins in absolute terms not be increased. Until the formation of a rather shaky left-of-center coalition government in May, after months of negotiations following last year's elections, formulation of any kind of coherent economic policy in the Netherlands was virtually impossible. Despite the high rates of inflation, the current account of the Dutch balance of payments remains strong, leaving some leeway for domestic policy options.

In Japan, the authorities have recently taken several measures to curb soaring domestic prices and the fast growth of economic activity. Recent price rises ran at an annual rate of about 20 per cent for both consumer and wholesale prices. Industrial production (seasonally adjusted) also rose at an annual rate of 20 per cent in recent months. On July 2, the Bank of Japan raised its basic discount rate to 6.0 per cent -- the third rate increase this year. Still, the 6.0 per cent level is not particularly high for Japan by post-war standards, the rate having generally been in the 5-7 per cent range. In addition to the discount rate increases, the Bank of Japan has attempted to reduce bank credit expansion by putting ceilings on the banks' ability to increase lending: the amount of credit expansion permitted for the third quarter 1973 is only about three-fourths of that occurring in the third quarter of 1972.

Other stabilization measures announced early in July included a reduction in the rate of public works expenditures and a liberalization of agricultural import quotas. For the first half of fiscal 1973 (April-September 1973), the ratio of public works contracts to previously scheduled expenditures is to be reduced from 60 per cent to 50 per cent.

It is doubtful that the latest tightening measures will have a reasonably fast braking effect on the rate of inflation. Much of the upward price pressures stem from soaring international prices of agricultural products and raw materials, and from sharply rising costs of production for small firms. In addition, the tighter monetary policy will have little immediate effect on capital spending because of excess corporate liquidity.

The rapid rate of economic expansion coupled with the high rates of internal inflation and the revaluation of the yen, have brought about a decrease in the excess of the volume of exports over that of imports. The fall in the Japanese trade surplus in recent months has clearly been a factor in the stability of the floating yen rate through last week.

In Canada, the strong pace of expansion of economic activity is continuing. The unemployment rate (seasonally adjusted) has decreased significantly -- down to 5.2 per cent in May, compared to an average rate of 6.3 per cent in 1972. Inflation is a severe problem in Canada as elsewhere -- wholesale prices are increasing at an annual rate of 21 per cent and consumer prices at a rate of 8 per cent.

The government's fiscal policy stance remains moderately expansionary -- the corporate tax cuts and accelerated depreciation allowances first announced 14 months ago passed Parliament on July 5 (retroactive to January 1) with a compromise provision for review early next year. However, corporate planners have generally made investment decisions assuming the measures would be enacted so no additional stimulus is expected now.

As in most of the other countries, monetary policy has become more restrictive. Effective June 11, and following the announcement of a U.S. discount rate increase, the Bank of Canada raised the bank rate to 6.25 per cent. This was the third increase in two months, producing a total rise of 1-1/2 percentage points. The Bank's policy aim is to bring about a moderation in the extraordinarily rapid growth of bank credit, which has been at an annual rate of about 30 per cent so far this year. In response to the increase in the bank rate, the chartered banks raised the prime lending rate to 7.75 per cent, the fourth increase since early April.

APPENDIX A
CHRONOLOGY OF MONETARY DEVELOPMENTS IN MAJOR INDUSTRIAL COUNTRIES IN 1973*

January

2-9 U.K. Clearing banks raise base lending rates from 7-1/2 to 8-1/4 - 8-1/2% and 7-day deposit rates from 5-3/4 to 6-1/2 - 6-3/4%.

4 Switzerland. Banks raise their private discount rates from 4-3/4 to 5%.

8 Germany. The Bundesbank raises the discount rate from 4-1/2 to 5% and the rate for advances against securities (Lombard rate) from 6-1/2 to 7%.

9 Japan. The Bank of Japan increases minimum reserve requirements against time deposits from 0.5 to 1.0%; against demand deposits from 1.5 to 2.0%; and against bank debentures and money in trust from 0 to 0.25%. Margin requirement for stock purchases is increased from 60 to 70%.

10 Switzerland. The National Bank of Switzerland limits the growth of bank lending for the year ending July 31, 1973 to 6% above the year-ago level; amounts domestic borrowers can raise in the capital market in 1973 are set at Sw. fr. 3.4 billion (1972: 4 billion); minimum down payments on installment purchases are raised from 35 to 40% and the period of repayment is cut from 18 to 15 months.

12 Germany. The Central Capital Market Committee recommends that the nominal interest rate for domestic bond issues be raised from 8 to 8-1/2%.

15 U.S. Discount rate raised from 4-1/2 to 5%.

16 Italy. In order to avoid an increase in interest rates, 14 major banks agree to continue to apply the current schedule of minimum lending rates to ordinary borrowers.

18 Switzerland. The National Bank of Switzerland raises the discount rate from 3-3/4 to 4-1/2% and the rate for advances against securities from 4-3/4 to 5-1/4%.

January

19 U.K. Bank of England lowers minimum lending rate from 9 to 8-3/4%.

27-30 Netherlands. Interest rate on 3-month savings deposits increased from 4.25 to 4.50%; and 5-year savings deposits from 6.5 to 7.0%.

February

2 U.S. Four large eastern banks announce an increase from 6 to 6-1/4% in their prime rates effective from February 5th. Three of the banks rescind the increase on February 6 following intervention by the Committee on Interest and Dividends.

7 Germany. Commercial banks' rediscount quotas at the Bundesbank are cut to 60% of permissible level.

13 U.K. Clearing banks raise base lending rate from 8-1/2 to 9-1/2% and 7-day deposit rate from 6-3/4 to 7-3/4%.

26 U.S. Discount rate increased from 5 to 5-1/2%.

U.S. Major banks increase their prime lending rate from 6 to 6-1/4%.

March

1 U.K. Finance Houses Association announced a rise in base lending rate to 10%.

3 Germany. The Bundesbank increases minimum reserve requirements on sight and time deposits to 15%; and on savings deposits to 7.5%.

15 Netherlands. The Finance Ministry announces a Treasury bill tender in an attempt to soak up excess liquidity.

16 France. Interest will no longer be paid on non-resident FF deposits; the reserve requirement on non-resident deposits will be 100%; and non-resident financial accounts may not be used to purchase short-term securities or to constitute time deposits.

March

16 Japan. Bank of Japan raises reserve ratio for time deposits from 1.0 to 1.5%; and for demand deposits from 2 to 3%.

19 Belgium. The Ministry of Finance imposes a negative interest rate of 0.25% per week on convertible BF accounts held by non-residents.

19 U.S. Several large banks raise their prime lending rate from 6-1/4 to 6-3/4%.

23 U.S. Due to pressure from the Committee on Interest and Dividends, leading banks cut prime rate from 6-3/4 to 6-1/2%.

U.K. Bank of England's minimum lending rate declines from 8-3/4 to 8-1/2%.

26 Netherlands. Netherlands Bank levies a surcharge of 0.5% on the increase in non-resident guilder deposits.

29 Netherlands. Introduction of a non-interest bearing cash reserve requirement against increases in banks' Fl liabilities abroad; requirement set at 50%.

30 France. Establishment of a 0.75% per month commission charge on non-resident financial franc accounts. The Bank of France informs commercial banks that henceforth they may neither enter into nor renew operations with non-residents that would amount to a swap operation against FF.

April

1 U.K. Finance Houses Association base rate increased from 10 to 11%.

2 Japan. Bank of Japan raises discount rate from 4-1/4 to 5%.

4 U.K. Base lending rate declines from 9-1/2 to 9%; and 7-day deposit rate from 7-3/4 to 7-1/4%.

9 Canada. Bank of Canada raises discount rate from 4-3/4 to 5-1/4%.

April

9 Canada. Several large banks increase their prime rate from 6 to 6-1/2%.

13 U.K. Bank of England's minimum lending rate declines from 8-1/2 to 8%.

16 Germany. The Bundesbank announces that it will buy commercial bills at a fixed rate of 12%.

U.S. Voluntary guidelines on bank interest rates proposed by the Administration in order to establish a dual prime rate system for large and small borrowers.

17 France. The Crédit Industriel et Commercial raises its base rate from 7.1 to 7.4%.

Italy. The Italian Banking Association agreed not to raise deposit rates until at least April, 1974.

19 Switzerland. Reduction in interest rates on some fixed time deposits. Rates on 3-5 months fall from 4 to 3-1/2%; 6-11 months from 4-1/4 to 4%.

20 U.K. Bank of England's minimum lending rate increases from 8 to 8-1/4%.

23 U.S. Discount rate raised from 5-1/2 to 5-3/4%.

26 Japan. Stock margin requirement lowered from 70 to 60%.

May

1 U.K. Finance Houses Association lowers base rate from 11 to 10-1/2%.

Germany. The Bundesbank suspends purchase of commercial bills at 12%. Since these purchases were initiated, the rate for interbank day-to-day money has fallen to 5%.

4-5 Germany. The Bundesbank raises discount rate from 5 to 6% and the Lombard rate from 7 to 8%.

7 Germany. Interests rates on savings accounts raised from 5 to 5-1/2% effective June 1.

May

9 Belgium. National Bank of Belgium raises discount rate from 5 to 5-1/2%.

Netherlands. Surcharge on non-resident Fl. deposits abolished.

11 U.S. Discount rate raised from 5-3/4 to 6%.

U.K. Bank of England's minimum lending rate declines from 8-1/4 to 8%.

12 Canada. Bank of Montreal raises prime rate from 6-1/2 to 6-3/4 for loans over $100,000. For loans of less than $100,000 the rate remains at 6-1/2%.

Italy. Treasury bill base rate raised from 5-1/2 to 6%.

14 Canada. Bank of Canada raises discount rate from 5-1/4 to 5-3/4%.

15 Canada. Three major banks raise prime rate from 6.5 to 7%.

16 U.S. Federal Reserve Board announced new measures to tighten up corporate borrowing. A suspension of the ceiling on interest rates on 90-day CD's of more than $100,000; an increase in the reserve requirements for new large CD's from 5% to 8%; a reduction in the reserve requirement for certain foreign borrowings from 20 to 8%; and a proposal that would place reserve requirements on commercial paper for the first time.

Italy. Italy takes measures to prevent speculative imports of gold.

18 Canada. Interest rate on time deposits of less than one year increased from 6 to 6-1/2%.

Germany. Interest rates payable on savings accounts increased from 4-1/2 to 5% effective June 1.

U.K. Bank of England's minimum lending rate declines from 8 to 7-3/4%.

19 Switzerland. Interest rates on fixed-term deposits decline from 3-1/2 to 2-1/2% on 3-5 month; 4-1/4 to 3% on 6-11 month; and 4-1/2 to 4-1/4 on 12-month deposits.

May

19 Japan. The rate of interest on government loans to public financial institutions increases from 6.2 to 6.5% with effect June 1.

23 U.K. Major banks lower their base rates from 9 to 8-1/2% and 7-day deposits rates from 7-1/4 to 6-3/4%.

25 U.S. Major banks raised the prime lending rate from 7 to 7-1/4%.

26 Belgium. The National Company for Credit to Industry raised the interest rate for investment loans. The new rates are 8% for credits up to five years, 8.25% for credits between five and ten years, and 8.5% for credits of more than ten years.

30 Japan. Bank of Japan raises discount rate from 5 to 5-1/2%; reserve requirements against time deposits from 1-1/2 to 1-3/4% and reserve requirements against demand deposits from 2-3/4 to 3% effective June 16.

June

1 U.K. Finance Houses Association base lending rate declines from 10-1/2 to 9-1/2%.

Germany. The Bundesbank raises discount rate from 6 to 7% and Lombard rate from 8 to 9%.

4 Netherlands. Netherlands Bank raises discount rate from 4 to 4-1/2% and other interest rates from 4-1/2 to 5%.

Canada. Six major banks increase interest rate on business loans under $200,000 by 0.25%.

7 U.S. Large banks raise prime rate from 7-1/4 to 7-1/2%.

Germany. Savings banks increase interest payable on savings accounts by 0.5% effective July 1.

9 France. French banks increase base rate from 7.4 to 7.7%; discount rate on commercial bills from 7.8 to 8.1%; and rate on overdrafts from 9.45 to 9.75%.

June

11 U.S. Discount rate raised from 6 to 6-1/2%.

Canada. Bank of Canada raises discount rate from 5-3/4 to 6-1/4%.

12 Canada. Seven large banks increase prime rate from 7-1/4 to 7-3/4%.

14 U.K. National Westminister Bank decreases base lending rate from 8-1/2 to 8%.

18 Italy. Bank of Italy raises interest rates on some fixed-term advances. One per cent additional will be charged a bank each time it requests advances within a six-month period. Commercial banks must also increase purchases of non-government fixed-interest securities by amounts equal to 5% of savings and demand deposits outstanding at end of 1972; and increase purchases of government fixed-interest securities by amounts equal to 1% of such deposits.

19 U.S. First National Bank of Chicago increases prime rate from 7-1/2 to 7-3/4%.

20 U.S. Federal Reserve Board extends reserve requirements to funds raised by sales of commercial paper. In addition, banks must include commercial paper when calculating total obligations subject to an additional 3% reserve requirement.

21 U.S. Several large banks increase minimum interest charges to large corporations from 7-1/2 to 7-3/4%.

22 U.K. Bank of England's minimum lending rate declines from 7-3/4 to 7-1/2%.

25 U.K. Clearing banks' base rate declines from 8-1/2 to 8%.

27 Germany. Bundesbank changes the system for calculating minimum reserves on foreign liabilities: with effect from 7/1/73 the basic amount used to calculate the increase in foreign liabilities subject to minimum reserve requirements is lowered by 25%. As a result the overall minimum reserve requirement goes up by approximately DM 1.5 billion.

June	28	Netherlands. Netherlands Bank raises discount rate from 4-1/2 to 5%.
July	2	U.S. Discount rate raised from 6-1/2 to 7%; reserve requirements on all but the first $2 million of net demand deposits at member bank increased by 0.5%.
	2	Japan. Bank of Japan raises discount rate from 5-1/2 to 6%.
	5	Belgium. Belgian National Bank raises discount rate from 5-1/2 to 6%.
	5	France. Bank of France raises discount rate from 7-1/2 to 8-1/2%; reserve requirements against demand deposits are increased from 10 to 12% for residents and from 12 to 14% for non-resident accounts. Credit expansion for the year ending October 1, 1973 is limited to 14%; the limits for end-July and end-August, 1973 are 16.6 and 16.0% respectively.
	6	U.S. Major banks increase prime rate from 8 to 8-1/4%.
	10	Denmark. National Bank of Denmark raises the discount rate from 7.0 to 8.0%; lending rates are also raised by 1.0%.

*Prepared by World Payments and Economic Activity Section, Division of International Finance.