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

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

August 15, 1973

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

DOMESTIC NONFINANCIAL SCENE

August 15, 1973

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	July	8/3	88.8	-1.6	2.1	2.6
Unemployment rate	July	8/3	4.7	4.8 1/	5.0 1/	5.6 1/
Insured unemployment rate	June	7/27	2.7	2.7 1/	2.8 1/	3.6 1/
Nonfarm employment, payroll (mil.)	July	8/3	75.5	0.6	1.9	3.8
Manufacturing	July	8/3	19.8	-4.7	1.3	4.7
Nonmanufacturing	July	8/3	55.7	2.5	2.2	3.5
Private nonfarm:						
Average weekly hours (hours)	July	8/3	37.3	37.2 1/	37.2 1/	37.2 1/
Hourly earnings ($)	July	8/3	3.90	9.3	6.3	6.8
Output per manhour (1967=100)	Q II	8/3	115.5	-0.3	--	3.7
Compensation per manhour (1967=100)	Q II	8/3	149.9	5.6	--	7.4
Unit labor cost (1967=100)	Q II	8/3	129.8	5.9	--	3.6
Manufacturing:						
Average weekly hours (hours)	July	8/3	40.9	40.6 1/	40.9 1/	40.6 1/
Unit labor cost (1967=100)	June	7/27	124.3	10.7	11.6	3.5
Industrial production (1967=100)	July	8/15	126.3	8.6	7.1	9.7
Consumer goods	July	8/15	132.2	6.4	4.0	7.2
Business equipment	July	8/15	123.1	3.9	11.7	16.7
Defense & space equipment	July	8/15	82.4	26.8	12.0	5.2
Materials	July	8/15	130.2	9.3	7.8	10.5
Consumer prices (1967=100)	June	7/20	132.2	6.8	7.2	5.9
Food	June	7/20	139.2	11.3	14.0	13.6
Commodities except food	June	7/20	123.5	5.9	5.3	3.6
Services 2/	June	7/20	138.1	5.2	4.4	3.8
Wholesale prices (1967=100)	July	8/2	134.4	-16.7	11.7	12.7
Industrial commodities	July	8/2	126.9	0.7	9.0	7.4
Farm products & foods & feeds	July	8/2	154.6	-54.8	17.3	26.5
Personal income ($ bil.) 3/	July	8/15	1033.9	8.5	8.8	10.6
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	June	8/1	42.5	0.1	3.6	20.1
Capital goods industries:	June	8/1	13.2	3.3	5.8	11.8
Nondefense	June	8/1	11.0	0.8	4.1	22.5
Defense	June	8/1	2.2	18.1	15.6	-22.5
Inventories to sales ratio:						
Manufacturing and trade, total	June	8/13	1.44	1.42 1/	1.42 1/	1.53 1/
Manufacturing	June	8/1	1.58	1.57 1/	1.58 1/	1.70 1/
Trade	June	8/13	1.30	1.28 1/	1.25 1/	1.36 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	June	8/1	.759	.776 1/	.817 1/	.896 1/
Retail sales, total ($ bil.)	July	8/10	42.6	3.4	3.5	14.1
GAF	July	8/10	11.1	1.7	5.2	13.1
Auto sales, total (mil. units) 3/	July	8/6	12.1	10.7	3.4	5.7
Domestic models	July	8/6	10.3	13.8	5.6	4.7
Foreign models	July	8/6	1.7	-4.4	-8.0	11.6
Housing starts, private (thous.) 3/	June	7/18	2,119	-12.3	-6.2	-8.5
Leading indicators (1967=100)	June	7/27	166.6	1.9	2.7	17.1

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Preliminary Commerce Department estimates for the second quarter indicate more slowing in real GNP, and a larger rise in prices, than we had expected. Growth in real GNP was at an annual rate of only 2.6 per cent, with a decline in farm output one of the factors making for slower over-all expansion. The increase in the private GNP fixed weight price index is now shown to be at a rate of 7.5 per cent, somewhat above the first quarter rate.

The rate of growth of industrial production also slowed from the first to the second quarter, but not as dramatically as real GNP. Revised data now show an increase in industrial output at an annual rate of 5.5 per cent in the second quarter, rather than the 8 per cent formerly published. In the past month or two, however, gains in industrial output have been stronger than in the second quarter as a whole. In July, the index rose .7 per cent, with widespread strength among consumer goods, business equipment, and materials. The June index was revised upward to show a 0.5 per cent rise.

Nonfarm payroll employment, which has risen more moderately in recent months than earlier, changed little from June to July, and the unemployment rate edged down to 4.7 per cent.

Consumer spending rebounded in July, with retail sales up about 3-1/2 per cent, following little change in the second quarter. Total auto sales rose in July to an annual rate of 11-3/4 million units, moderately below the record first quarter rate. Housing starts declined in June and for the second quarter as a whole.

Business demands continue strong. New orders and backlogs for nondefense capital goods rose further in June. Inventory investment remained quite moderate in the second quarter--little larger than in the first.

The rise in wage rates continues to be relatively moderate. The private nonfarm hourly earnings index rose at an annual rate of 5.7 per cent over the first 7 months of this year, and in July was 6.1 per cent above a year earlier. However, the slow rate of growth reported in real GNP in the second quarter was reflected in virtually no change in productivity for the private nonfarm economy, and consequently unit labor costs rose sharply further.

Price developments in the third quarter are being dominated by the lifting of the freeze on most foods on July 18. A decline in wholesale prices of farm products from June to July reflected primarily a temporary response to the imposition of export controls; wholesale prices of industrial commodities on average were little changed from June, reflecting the price freeze announced June 13. In the past month, however, prices of farm products and foods have skyrocketed, though beef prices have remained under freeze. Consumer food prices will therefore be sharply higher in the August and September indexes.

Outlook. The staff GNP projection continues to assume growth in the monetary aggregates at the longer-run rates agreed to at the June Committee meeting. Market interest rates in the months ahead are assumed to move up somewhat further from present advanced levels. The assumptions with respect to Federal expenditures and tax policies remain unchanged.

For the second half of this year, the staff is now projecting a much larger rise in prices, and a somewhat slower rate of growth in real GNP, than was projected five weeks ago. In the third quarter, sharply higher food prices are expected to raise the previous projection of the private fixed weight index to a 6-1/2 per cent annual rate of increase. The rise in this index may be even higher in the fourth quarter, when prices of industrial commodities bulge as Phas IV permits adjustments to higher costs.

These price increases will reduce average real incomes of wage and salary workers, and we expect this development to moderate the rise in real consumer takings. Real GNP growth, consequently, is now projected to average only about a 3 per cent annual rate in the second half of 1973.

For 1974 the over-all contour of the projection is close to that of five weeks ago, as significant, though roughly compensating, changes have been incorporated in two key sectors. Housing starts and residential construction are projected to decline more rapidly than expected earlier, in view of the increasing tightness becoming apparent in mortgage markets. On the other hand, exports are now expected to rise more rapidly than had been projected in the July Greenbook, reflecting both higher prices for agricultural commodities and a larger physical volume of nonfarm exports.

The rise in prices is expected to moderate in 1974, though continuing at a relatively rapid pace. A marked slowing in the advance of farm products and foods is in prospect. On the other hand, a continued "catch-up" from the freeze in nonfood commodities is expected in the early months of the year, and upward pressures will persist throughout the year because of increasing unit labor costs. Unemployment is expected to rise gradually from a 4.7 per cent rate late this year to 5.5 per cent in late 1974, as real growth slows further to an annual rate of about 1-1/4 per cent.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate 1/					
			Real GNP		Gross private product fixed weighted price index		Unemployment rate	
	7/11/73	8/15/73	7/11/73	8/15/73	7/11/73	8/15/73	7/11/73	8/15/73
1971 2/	74.0	78.3	2.7	3.2	4.5	4.6	5.9	5.9
1972 2/	101.4	99.7	6.4	6.1	3.3	3.2	5.6	5.6
1973	130.2	131.2	6.5	6.0	5.0	5.7	4.8	4.8
1974	96.6	99.6	2.3	1.9	4.5	5.7	5.2	5.2
1973:I 2/	43.0	43.3	8.0	8.7	7.4	7.0	5.0	5.0
II	33.0	28.5	4.7	2.6	7.1	7.5	4.9	4.9
III	25.1	30.2	4.4	3.6	3.6	6.4	4.7	4.7
IV	27.3	29.5	3.3	2.6	5.3	7.0	4.7	4.7
1974:I	25.2	25.2	1.5	1.6	5.4	5.5	4.9	4.9
II	21.3	21.3	1.5	1.4	4.9	5.0	5.1	5.1
III	18.5	18.5	.9	.8	4.6	4.6	5.3	5.3
IV	19.4	19.5	1.1	1.1	4.6	4.6	5.5	5.5
Change: 72-IV to 73-IV	128.4	131.5	5.1	4.3	5.8	6.8	- .6	- .6
73-IV to 74-IV	84.4	84.5	1.3	1.2	4.9	4.9	.8	.8

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.

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 II	1973 Projected III	1973 Projected IV
Gross National Product	1155.2	1286.4	1166.5	1199.2	1242.5	1271.0	1301.2	1330.7
Final purchases	1149.1	1278.0	1157.8	1191.0	1237.8	1265.8	1291.2	1317.2
Private	894.1	1000.4	903.1	930.3	969.2	990.8	1011.0	1030.5
Excluding net exports	898.7	998.6	906.9	933.8	969.2	989.1	1009.7	1026.5
Personal consumption expenditures	726.5	804.5	734.1	752.6	779.4	795.1	813.7	829.8
Durable goods	117.4	133.0	120.2	122.9	132.2	133.1	133.3	133.3
Nondurable goods	299.9	336.5	302.3	310.7	322.2	329.8	342.2	351.8
Services	309.2	335.0	311.6	319.0	325.0	332.2	338.2	344.7
Gross private domestic investment	178.3	202.5	181.5	189.4	194.5	199.2	206.0	210.2
Residential construction	54.0	57.3	54.5	56.9	59.0	59.5	57.0	53.7
Business fixed investment	118.2	136.8	118.3	124.3	130.9	134.4	139.0	143.0
Change in business inventories	6.0	8.4	8.7	8.2	4.6	5.3	10.0	13.5
Nonfarm	5.6	8.0	8.4	7.9	4.4	5.1	9.6	13.0
Net exports of goods and services 1/	-4.6	1.8	-3.8	-3.5	0.0	1.7	1.3	4.0
Exports	73.5	97.0	74.0	79.7	89.7	95.1	98.6	104.5
Imports	78.1	95.2	77.7	83.2	89.7	93.4	97.3	100.5
Gov't. purchases of goods and services	255.0	277.6	254.7	260.7	268.6	275.0	280.2	286.7
Federal	104.4	106.8	102.3	102.7	105.5	106.5	107.2	108.1
Defense	74.4	74.1	71.9	72.4	74.3	74.5	74.0	73.5
Other	30.1	32.8	30.4	30.3	31.2	32.0	33.2	34.6
State & local	150.5	170.8	152.4	158.0	163.0	168.5	173.0	178.6
Gross national product in constant (1958) dollars	790.7	838.4	796.7	812.3	829.3	834.6	842.0	847.5
GNP implicit deflator (1958 = 100)	146.1	153.4	146.4	147.6	149.8	152.3	154.5	157.0
Personal income	939.2	1030.8	943.7	976.1	996.6	1019.1	1042.8	1064.8
Wage and salary disbursements	627.8	688.7	632.7	648.7	666.7	682.5	695.5	710.0
Disposable income	797.0	880.4	800.9	828.7	851.5	870.4	890.4	909.0
Personal saving	49.7	52.7	45.8	54.4	50.0	52.4	53.1	55.0
Saving rate (per cent)	6.2	5.9	5.7	6.6	5.9	6.0	6.0	6.1
Corporate profits before tax	98.0	129.3	98.4	106.1	119.6	129.9	131.0	136.5
Corp. cash flow, net of div. (domestic)	105.0	111.4	91.9	97.7	104.9	111.5	112.8	116.4
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	263.4	229.6	236.9	253.6	261.9	266.2	272.0
Expenditures	244.6	265.1	237.0	260.3	258.6	262.0	267.8	272.1
Surplus or deficit (-)	-15.9	-1.7	-7.4	-23.4	-5.0	-0.1	-1.6	-0.1
High employment surplus or deficit (-)	0.4	-1.0	7.3	-10.9	-0.9	0.5	-3.3	-0.3
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	11.2	9.5	19.6	13.9	10.9	10.9	9.2
Total labor force (millions)	89.0	90.9	89.3	89.6	90.0	90.9	91.2	91.6
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.6	86.9	87.2	87.6	88.6	88.9	89.3
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)	115.1	125.5	116.3	120.2	123.1	124.8	126.5	127.5
Capacity utilization, mfg. (per cent) 2/	77.9	81.9	78.4	80.2	81.4	82.0	82.2	81.9
Major materials (per cent) 2/	90.2	95.1	91.0	92.4	93.7	95.4	95.8	95.4
Housing starts, private (millions, A.R.)	2.38	2.11	2.37	2.40	2.40	2.22	2.00	1.80
Sales new autos (millions, A.R.)	10.94	11.50	11.52	11.69	12.23	11.50	11.50	10.75
Domestic models	9.32	9.67	9.91	9.90	10.27	9.64	9.75	9.00
Foreign models	1.61	1.83	1.61	1.79	1.96	1.86	1.75	1.75

1/ GNP exports and imports estimates for 1973-II have not been revised to reflect revised Balance of Payments estimates; these revised estimates and corresponding projections for 1973 are:

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 Projected III	1973 Projected IV
Net exports of goods and services	-4.6	2.6	-3.8	-3.5	0.0	2.8	2.4	5.1
Exports	73.5	98.6	74.0	79.7	89.7	97.2	100.7	106.6
Imports	78.1	96.0	77.7	83.2	89.7	94.4	98.3	101.5

2/ Capacity utilization rates have not been revised to reflect new revisions in industrial production index.

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	1386.0	1355.9	1377.2	1395.7	1415.2
Final purchases	1376.8	1343.9	1367.2	1387.2	1408.7
Private	1072.3	1049.3	1066.2	1079.4	1094.4
Excluding net exports	1064.4	1042.9	1057.7	1071.3	1085.8
Personal consumption expenditures	869.2	846.8	863.0	877.3	889.6
Durable goods	133.2	133.3	133.3	133.3	133.0
Nondurable goods	373.8	361.8	371.0	378.3	383.9
Services	362.2	351.7	358.7	365.7	372.7
Gross private domestic investment	204.5	208.1	204.7	202.5	202.7
Residential construction	46.6	50.1	46.7	44.5	45.2
Business fixed investment	148.6	146.0	148.0	149.5	151.0
Change in business inventories	9.3	12.0	10.0	8.5	6.5
Nonfarm	9.1	11.8	9.8	8.3	6.3
Net exports of goods and services 1/	7.9	6.4	8.5	8.1	8.6
Exports	112.9	109.2	113.0	113.8	115.5
Imports	105.0	102.8	104.5	105.7	106.9
Gov't. purchases of goods and services	304.4	294.6	301.0	307.8	314.3
Federal	112.9	110.9	112.1	113.7	114.7
Defense	75.4	74.5	74.9	75.7	76.3
Other	37.5	36.4	37.2	38.0	38.4
State & local	191.6	183.7	188.9	194.1	199.6
Gross national product in constant (1958) dollars	854.5	850.9	853.8	855.6	857.9
GNP implicit deflator (1958 = 100)	162.2	159.3	161.3	163.1	165.0
Personal income	1115.7	1087.7	1105.8	1126.3	1142.9
Wage and salary disbursement	745.4	726.0	738.8	752.0	764.6
Disposable income	952.3	928.4	943.7	961.5	975.5
Personal saving	57.7	56.8	55.5	58.6	59.9
Saving rate (per cent)	6.1	6.1	5.9	6.1	6.1
Corporate profits before tax	129.8	132.5	131.5	128.0	127.0
Corp. cash flow, net of div. (domestic)	115.4	115.1	115.6	114.9	116.1
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	280.9	277.5	280.2	281.7	284.1
Expenditures	288.7	280.4	285.0	292.3	297.2
Surplus or deficit (-)	-7.8	-2.9	-4.8	-10.6	-13.1
High employment surplus or deficit (-)	9.0	3.9	8.7	10.1	13.4
State and local government surplus or deficit (-),(N.I.A. basis)	6.0	8.1	6.8	5.1	3.8
Total labor force (millions)	92.6	92.0	92.4	92.8	93.2
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.3	89.7	90.1	90.5	90.9
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	77.1
Manufacturing	19.8	19.9	19.8	19.7	19.6
Industrial production (1967 = 100)	128.5	128.1	128.5	128.7	128.9
Capacity utilization, mfg. (per cent) 2/	80.3	81.3	80.7	79.9	79.1
Major materials 2/	93.9	94.8	94.2	93.6	93.0
Housing starts, private (millions, A.R.)	1.61	1.70	1.55	1.55	1.65
Sales new autos (millions, A.R.)	9.91	10.15	10.00	10.00	9.50
Domestic models	8.37	8.50	8.50	8.50	8.00
Foreign models	1.54	1.65	1.50	1.50	1.50

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

Net exports of goods and services	9.0	7.5	9.6	9.2	9.7
Exports	115.0	111.3	115.1	115.9	117.6
Imports	106.0	103.8	105.5	106.7	107.9

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II p	1973 Projection III	1973 Projection IV
	-----	-----	-----	Billions Of Dollars	-----	-----	-----	-----
Gross National Product	99.7	131.2	24.1	32.7	43.3	28.5	30.2	29.5
Inventory change	-0.1	2.4	3.2	-0.5	-3.6	0.7	4.7	3.5
Final purchases	99.7	128.9	20.9	33.2	46.8	28.0	25.4	26.0
Private	79.0	106.3	20.4	27.2	38.9	21.6	20.2	19.5
Excluding net exports	84.4	99.9	18.5	26.9	35.4	19.9	20.6	16.8
Net exports	-5.4	6.4	1.9	0.3	3.5	1.7	-0.4	2.7
Government	20.7	22.6	0.5	6.0	7.9	6.4	5.2	6.5
GNP in constant (1958) dollars	45.3	47.7	11.1	15.6	17.0	5.3	7.4	5.5
Final purchases	46.0	46.1	8.7	16.0	20.0	4.7	4.0	2.7
Private	41.4	43.5	10.9	14.3	19.1	4.2	2.9	1.4
	-----	-----	-----	Per Cent Per Year 1/	-----	-----	-----	-----
Gross National Product	9.4	11.4	8.7	11.7	15.2	9.5	9.8	9.4
Final purchases	9.5	11.2	7.6	12.0	16.7	9.4	8.3	8.3
Private	9.7	11.9	9.6	12.6	17.8	9.2	8.4	7.9
Personal consumption expenditures	8.9	10.7	8.5	10.5	15.0	8.3	9.7	8.2
Durable goods	13.3	13.3	18.9	9.3	33.9	2.8	0.6	0.0
Nondurable goods	7.6	12.2	6.0	11.6	15.6	9.8	15.9	11.7
Services	8.5	8.3	7.2	9.8	7.7	9.2	7.4	7.9
Gross private domestic investment	16.4	13.6	16.5	18.6	11.2	10.0	14.4	8.4
Residential construction	26.5	6.1	13.5	18.8	15.6	3.4	-15.8	-21.2
Business fixed investment	13.2	15.7	7.1	21.9	23.0	11.1	14.4	12.0
Gov't. purchases of goods & services	8.8	8.9	0.8	9.8	12.7	9.9	7.8	9.6
Federal	6.4	2.3	-15.5	1.6	11.4	3.8	2.7	3.4
Defense	3.9	-0.4	-22.4	2.8	10.9	1.1	-2.7	-2.7
Other	13.6	9.0	4.0	-1.3	12.4	10.7	15.9	18.0
State & local	10.5	13.5	14.0	15.5	13.3	14.2	11.1	13.6
GNP in constant (1958) dollars	6.1	6.0	5.8	8.1	8.7	2.6	3.6	2.6
Final purchases	6.2	5.9	4.5	8.4	10.3	2.3	1.9	1.3
Private	6.9	6.8	7.0	9.1	12.0	2.5	1.7	0.8
GNP implicit deflator	3.2	5.0	2.8	3.3	6.1	6.8	6.0	6.6
Private GNP fixed weight index 2/	3.2	5.7	3.1	4.1	7.0	7.5	6.4	7.0
Personal income	8.8	9.8	7.8	14.5	8.7	9.3	9.6	8.7
Wage and salary disbursements	9.5	9.7	7.7	10.5	11.6	9.8	7.8	8.6
Disposable income	6.8	10.5	8.1	14.6	11.5	9.2	9.5	8.6
Corporate profits before tax	15.2	31.9	16.1	35.2	61.5	39.2	3.4	17.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	15.2	7.7	13.3	31.3	13.7	6.7	9.0
Expenditures	10.7	8.4	-11.6	45.5	-2.6	5.4	9.2	6.6
Nonfarm payroll employment	3.0	3.6	2.8	4.5	4.5	3.6	2.2	2.1
Manufacturing	2.2	4.6	2.6	7.1	5.4	4.7	2.2	0.0
Industrial production	7.9	9.0	9.2	13.8	10.1	5.5	5.7	3.1
Housing starts, private	14.1	-11.3	16.0	6.6	0.2	-27.3	-34.1	-34.4
Sales new autos	6.8	5.1	49.7	5.9	19.8	-21.7	-0.1	-23.6
Domestic models	7.4	3.8	53.1	-0.5	16.0	-22.4	4.6	-27.4
Foreign models	3.3	13.7	30.9	52.0	42.3	-18.1	-21.8	0.0

1/ Percentage rates of change are annual rates compounded quarterly.

2/ Using expenditures in 1967 as weights.

August 15, 1973

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	------------Billions Of Dollars-------------				
Gross National Product	99.6	25.2	21.3	18.5	19.5
Inventory change	0.9	-1.5	-2.0	-1.5	-2.0
Final purchases	98.8	26.7	23.3	20.0	21.5
Private	71.9	18.8	16.9	13.2	15.0
Excluding net exports	65.8	16.4	14.8	13.6	14.5
Net exports	6.1	2.4	2.1	-0.4	0.5
Government	26.8	7.9	6.4	6.8	6.5
GNP in constant (1958) dollars	16.1	3.4	2.9	1.8	2.3
Final purchases	15.0	4.4	4.3	2.6	3.4
Private	10.5	3.8	2.8	1.1	1.9
	------------Per Cent Per Year 1/-------------				
Gross National Product	7.7	7.8	6.4	5.5	5.7
Final purchases	7.7	8.4	7.1	6.0	6.3
Private	7.2	7.5	6.6	5.0	5.7
Personal consumption expenditures	8.0	8.4	7.9	6.8	5.7
Durable goods	0.2	0.0	0.0	0.0	-0.9
Nondurable goods	11.1	11.9	10.6	8.1	6.1
Services	8.1	8.4	8.2	8.0	7.9
Gross private domestic investment	1.0	-3.9	-6.4	-4.2	0.4
Residential construction	-18.7	-24.2	-24.5	-17.6	6.4
Business fixed investment	8.6	8.7	5.6	4.1	4.1
Gov't. purchases of goods & services	9.7	11.5	9.0	9.3	8.7
Federal	5.7	10.8	4.4	5.8	3.6
Defense	1.8	5.6	2.2	4.3	3.2
Other	14.3	22.5	9.1	8.9	4.3
State & local	12.2	11.9	11.8	11.5	11.8
GNP in constant (1958) dollars	1.9	1.6	1.4	0.8	1.1
Final purchases	1.8	2.1	2.0	1.3	1.6
Private	1.5	2.2	1.6	0.6	1.1
GNP implicit deflator	5.7	6.1 2/	5.0	4.6	4.6
Private GNP fixed weight index 3/	5.7	5.5	5.0	4.6	4.6
Personal income	8.2	8.9	6.8	7.6	6.0
Wage and salary disbursements	8.2	9.3	7.2	7.3	6.9
Disposable income	8.2	8.8	6.8	7.8	6.0
Corporate profits before tax	0.4	-11.2	-3.0	-10.2	-3.1
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	6.6	8.3	3.9	2.2	3.5
Expenditures	8.9	12.8	6.7	10.6	6.9
Nonfarm payroll employment	1.9	1.6	1.6	1.0	1.0
Manufacturing	0.0	0.0	-2.0	-2.0	-2.0
Industrial production	2.5	1.9	1.4	0.6	0.6
Housing starts, private	-23.5	-20.4	-30.9	0.0	28.4
Sales new autos	-13.8	-20.5	-5.8	0.0	-18.5
Domestic models	-13.4	-20.4	0.0	0.0	-21.5
Foreign models	-15.8	-21.0	-31.7	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly.

2/ Excluding Federal pay increase, 5.2 per cent annual rate.

3/ Using expenditures in 1967 as weights.

<u>Industrial production</u>. Industrial production increased 0.7 per cent further in July following an upward revised 0.5 per cent rise in June. At 126.3 per cent of the 1967 average, the total index was 9.7 per cent above a year earlier. The July gains in output were widespread among consumer goods, business equipment, and industrial materials.

Auto assemblies were at an annual rate of 10.3 million units, slightly above the June rate. August production schedules indicate little change from the June-July level, after allowance for model change-overs. Output of carpeting and furniture and some household goods rose further and production of appliances and television sets continued at advanced levels. Output of most nondurable consumer goods increased.

Production of business equipment advanced 0.7 per cent further in July and was 16.7 per cent above a year earlier. Output gains in July included most equipment industries but production of trucks was little changed at capacity levels and output of aircraft continued depressed. Among industrial materials, production of steel and other durable goods materials rose further as did output of the textile, paper, and chemical materials groupings.

INDUSTRIAL PRODUCTION

(1967=100, seasonally adjusted)

	1972 July	1973 May	1973 June	1973 July	Per cent change from Month ago	Per cent change from Year ago
Total index	115.1	124.8	125.4	126.3	.7	9.7
Consumer goods	123.3	131.4	131.5	132.2	.5	7.2
Autos	108.2	129.8	132.6	134.0	1.1	23.8
Home goods	124.1	140.9	140.7	141.6	.6	14.1
Apparel and staples	122.8	127.6	128.2	128.7	.4	4.8
Business equipment	105.5	121.3	122.7	123.1	.3	16.7
Defense equipment	78.3	79.9	80.6	82.4	2.2	5.2
Intermediate products	119.8	130.6	131.0	131.6	.5	9.8
Construction products	118.0	132.0	134.4	134.5	.1	14.0
Materials, total	117.8	127.7	129.2	130.2	.8	10.5
Durable	113.0	128.0	130.3	131.6	1.0	16.5
Steel	108.1	119.8	120.0	120.0	0	11.0
Nondurable	124.0	128.3	129.0	129.7	.5	4.6

Note--The index of industrial production has been revised back to March 1972, incorporating revisions in seasonal adjustment factors and in the levels of some important individual series on the basis of more complete data now available. The level of the total index has been raised 1.4 per cent in the first half of 1973. All three major market groupings--consumer goods, business equipment, and industrial materials--were revised, but the largest change was in business equipment, up 2.3 per cent in the first six months of 1973.

The rise in the total index from the first quarter of 1973 as a whole to the second quarter is now indicated to have been at an annual rate of 5.5 per cent rather than the 8.0 per cent previously published. From March to June, however, both the revised and former indexes show about the same increase.

INDUSTRIAL PRODUCTION, TOTAL INDEX

(1967=100, seasonally adjusted)

	1972				1973	
	QI	QII	QIII	QIV	QI	QII
Rev.	110.1	113.8	116.3	120.2	123.1	124.8
Old	110.0	113.1	115.0	118.4	121.0	123.4
			Per cent changes, annual rates from preceding quarter			
Rev.		13.4	8.8	13.4	9.6	5.5
Old		11.3	6.7	11.8	8.8	8.0

Confidential until release August 16 p.m.

Retail sales. Retail sales in July rebounded with a 3.4 per cent increase, following a June decline of 1.2 per cent. The automotive group was the strongest, advancing almost 8 per cent, but all major store groups reported higher sales. Excluding autos and nonconsumer items, sales were up 2.5 per cent. Total sales in July were 3.0 per cent above the second quarter average.

Sales at nondurable goods stores in July were 2.7 per cent higher than in June, with an increase in current dollars of 3.8 per cent in the food group. Sales at general merchandise stores were up 2.4 per cent. Total sales were 14.1 per cent higher than a year earlier.

RETAIL SALES
(Seasonally Adjusted)
Percentage change from previous period

	1972-3	1973			
	QIV-QI	QI-QII	May	June	July
Total sales	5.7	.2	1.3	-1.2	3.4
Durable	8.2	-2.1	- .3	-4.2	4.7
Auto	7.8	-3.3	- .6	-6.7	7.9
Furniture & appliance	9.1	.4	-1.4	.2	.3
Nondurable	4.4	1.4	2.2	.3	2.7
Food	3.7	2.5	.6	.2	3.8
General merchandise	6.3	.4	3.3	.4	2.4
Total, less auto and nonconsumption items	4.7	1.4	1.9	.2	2.5
GAAF	6.9	- .5	2.7	.6	1.7
Real retail sales 1/	3.8	-2.5	.6	-1.9	n.a.

1/ Adjusted for rise inconsumer prices of goods.

Unit sales of consumer goods. Sales of new domestic-type autos were at a 10.0 million unit rate in July, a little above both June and a year earlier. The July rate was slightly above the average for the second quarter, but a little below the first quarter. The July rise was due in part to the completion of several dealer sales contests during the month.

Auto stocks were equivalent to a 53 days'supply at the end of July, up 5 per cent from June and 14 per cent from a year earlier. Nevertheless the mix is unevenly balanced with samll and intermediate models in short supply and full size cars in ample supply.

Foreign car sales in July were at a 1.7 million unit annual rate, the lowest of this year. Total new car sales in July were at an 11.7 million unit rate with imports accounting for 14.9 per cent compared with 16.2 per cent in June and 13.7 per cent a year earlier.

Unit factory sales of major appliances, TVs, and radios are estimated to have fallen in July for the second consecutive month, to a level 4 per cent below June. Appliance sales were down 6 per cent, with only freezers showing an increase. Sales of TVs declined slightly in June and July while radio sales rose in both months. Factory unit stocks of both TVs and major appliances rose slightly in July.

UNIT SALES OF SELECTED CONSUMER DURABLES

(Seasonally adjusted)

	1972	1973			Per cent change from	
	July	May	June	July	Month ago	Year ago
			Annual Rate			
Auto sales	11.4	12.0	11.3	11.7	4	3
Domestic	9.9	10.1	9.5	10.0	5	2
Foreign	1.6	1.9	1.8	1.7	-5	12
			Index 1967=100			
Home good factory sales	130	154	151	145e	-4	12
TVs 1/	142	158	157	152	-3	7
Radios 1/	98	74	76	81	7	-17
Major appliances	125	159	154	145	-6	16

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

Conference Board survey of consumer expectations and intentions. Although the Michigan Survey Research Center survey for May indicated increased consumer pessimism for the third quarter in a row, the attitudinal questions in the May-June Conference Board survey reflected more favorable responses than the previous bi-monthly survey. However, much of the improvement was in appraisals of the present economic situation, and expectations for business and employment in the next six months remained relatively unfavorable. Purchase plans for homes and major appliances were at high levels, but intentions to purchase autos--particularly new ones--were off very sharply from the previous survey.

CONFERENCE BOARD
CONSUMER EXPECTATIONS AND INTENTIONS
(Seasonally adjusted)

	1972		1973		
	May-June	November-December	January-February	March-April	May-June
	------Appraisal of Present Situation--------				
Business Conditions					
Good	22.8	32.4	31.8	28.9	31.3
Bad	16.7	11.3	10.3	11.7	12.5
Employment					
Jobs plentiful	11.6	16.7	19.4	17.6	20.8
Jobs not so plentiful	55.1	57.9	56.9	55.8	54.5
	-----Expectations for Six Months Hence------				
Business Conditions					
Better	23.3	24.9	22.1	19.8	17.9
Worse	7.1	6.5	9.0	10.1	13.2
Employment					
More jobs	18.1	20.5	17.2	15.9	16.1
Fewer jobs	15.3	12.7	20.1	21.2	20.9
Income					
Increase	25.2	28.0	26.2	27.0	28.7
Decrease	6.2	5.6	5.1	7.4	5.8
	------Plans to Buy Within Six Months--------				
Automobile					
Yes	8.1	8.1	8.1	9.2	8.3
New	4.9	5.1	5.0	5.5	4.3
Home					
Yes	3.3	3.5	3.1	4.4	3.2
Major appliances					
Total plans	32.3	34.3	30.9	37.5	37.9

<u>Construction and real estate</u>. The seasonally adjusted value of new construction put in place edged up further in July to an annual rate of $138.3 billion. In the private sector, residential construction expenditures changed little from the downward revised June peak, while outlays for nonresidential construction again reached a new high. The value of public construction also increased in July, but remained 3 per cent below the January peak. In real terms, total new construction outlays increased slightly during July, but were below the first quarter high.

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

	1973			Per cent change in July from	
	QI(r)	QII(r)	July 1/	June 1973	July 1972
Total-- current dollars	135.0	136.5	138.3	1	14
Private	101.8	104.1	105.6	1	14
Residential	59.0	59.6	59.8	-	11
Nonresidential	42.8	44.4	45.8	1	18
Public	33.2	32.5	32.7	1	12
State and local	28.0	27.6	27.7	-	12
Federal	5.2	4.9	5.0	6	14
Total-- 1967 dollars	92.8	92.0	92.6	-	5

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

Seasonally adjusted private housing starts moved downward again in June to an annual rate of 2.12 million units. This brought the average for the second quarter as a whole to 2.22 million units--8 per cent below the first quarter. While mortgage market developments over the recent period point to a further decline during the third quarter, indications based on building permits and other factors are that starts in July probably changed little from the reduced June pace.

The number of new homes sold by merchant builders decreased 9 per cent in June to a seasonally adjusted annual rate of 652,000 units. For the second quarter as a whole sales were 14 per cent below the first quarter. New homes available for sale reached a new high in June, to a rate equalling 8 months' supply. The median price of new homes sold increased to $33,200, more than a fifth above June 1972. The median price of existing homes sold also advanced further in June, to $29,200--7 per cent above a year earlier.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes sold 1/	Homes for sale 2/	Number of months' supply	Median price of: Homes sold	Median price of: Homes for sale
	(Thousands of units)			(Thousands of dollars)	
1972					
QIII	733	386	6.3	28.0	27.1
QIV	761	402	6.3	29.1	28.3
1973					
QI	733	426	7.0	30.4	29.4
QII (p)	681	437	7.7	32.7	31.2
April (r)	675	424	7.6	32.8	30.1
May (r)	716	429	7.2	32.0	30.9
June	652	437	8.0	33.2	31.2

1/ SAAR.
2/ SA, end of period.

Reflecting continued strong demands, the average vacancy rate on new and existing residential rental properties rose only slightly in the second quarter to 5.8 per cent, compared with 5.5 per cent a year earlier. Moreover, despite the record volume of new dwelling units completed, the vacancy rate on homeowner properties available for occupancy averaged just 0.9 per cent, down from the first quarter as well as from a year earlier.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for the second quarter of:				
	1965	1970	1971	1972	1973
Rental units	8.2	5.4	5.3	5.5	5.8
Northeast	5.3	2.9	3.0	3.0	3.7
North Central	7.1	5.9	5.3	6.7	5.7
South	8.5	7.1	7.2	6.9	7.2
West	12.6	5.8	5.6	5.7	7.0
Homeowner units	1.5	1.0	.9	1.0	.9

Source: U.S. Department of Commerce, Bureau of the Census.

Manufacturers' orders and shipments. New orders for durable goods were about unchanged in June (p) following an upward-revised increase of 2.7 per cent in May. Nondefense capital goods orders were up 0.8 per cent in June, compared with a 2.8 per cent rise in May. Orders for most other major categories were either unchanged or down in June.

For the second quarter as a whole (p), durable goods new orders rose at a 5.2 per cent rate following a 6.3 per cent increase in the first quarter. The slowing was due largely to a small decline in orders for motor vehicles and parts and reduced growth in orders for most other categories. New orders for nondefense capital goods rose 5.1 per cent--a little less than the 5.6 per cent increase of the first quarter.

Shipments of durable goods were about unchanged in June. Backlogs of unfilled orders rose 3.5 per cent, continuing the strong advance of recent months.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1973			
	QI from QIV 1972	QII from QI (p)	May from April	June from May (p)
Durable goods total	6.3	5.2	2.7	.1
Excluding defense	5.9	5.0	3.1	- .7
Primary metals	10.2	13.5	5.8	- .9
Motor vehicles and parts	3.5	-2.2	4.5	-1.9
Household durables	4.8	2.7	-2.3	- .1
Capital goods industries	6.8	6.1	1.6	3.3
Nondefense	5.6	5.1	2.8	.8
Defense	14.7	11.4	-5.3	18.1
Construction & other durables	5.8	4.9	2.4	-1.3

Inventories. Book value of manufacturing and trade inventories rose at a $31.3 billion annual rate in June (p). The quarterly average rate was $23.9 billion, only a little higher than in the first quarter. In both quarters, inventory book values reflected very rapid rates of price increase, with a second-quarter rate of inventory valuation adjustment in excess of $20 billion.

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

	1973			
	QI	Q II (Prel.)	May (Rev.)	June (Prel.)
Manufacturing and trade	21.5	23.9	25.3	31.3
Manufacturing, total	9.8	11.5	12.6	17.0
Durable	6.6	7.5	7.8	10.4
Nondurable	3.2	4.0	4.7	6.5
Trade, total	11.7	12.5	12.7	14.4
Wholesale	6.1	4.6	4.9	4.8
Retail	5.6	7.9	7.8	9.5

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

The value of manufacturing and trade sales was off slightly in June, as retail sales fell back, and the inventory-sales ratio rose to 1.44, up from lows of 1.42 in the March-May period but still quite low by historical standards. The ratio of inventories to unfilled orders at durable goods manufacturers continued its rapid decline.

INVENTORY RATIOS

	1972		1973	
	May	June	May (Rev.)	June (Prel.)
Inventories to sales:				
Manufacturing & trade	1.52	1.53	1.42	1.44
Manufacturing, total	1.69	1.70	1.57	1.58
Durable	2.02	2.05	1.85	1.88
Nondurable	1.30	1.30	1.21	1.22
Trade, total	1.35	1.36	1.28	1.30
Wholesale	1.23	1.22	1.15	1.16
Retail	1.44	1.45	1.37	1.41
Inventories to unfilled orders:				
Durable manufacturing	.922	.896	.776	.759

Cyclical indicators. The Census composite index of leading indicators rose 1.9 per cent in June (p), following a similar increase in May. The coincident and lagging indexes also rose.

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

	1973			
	Mar.	Apr.	May	June (p)
12 Leading (trend adjusted)	1.6	-1.3	2.1	1.9
12 Leading, prior to trend adjustment	1.3	-1.7	1.7	1.5
5 Coincident	1.1	.7	.7	1.1
5 Coincident, deflated	.4	.2	.2	1.0
6 Lagging	1.4	2.5	1.7	1.2

Leading series increasing in June were contracts and orders for plant and equipment, housing permits, industrial materials prices, and the ratio of price to unit labor cost. Partly offsetting those increases were declines in the manufacturing workweek, new orders for durable goods, and common stock prices, and a rise in initial claims for unemployment insurance. Since the preliminary index was compiled, a decline has been reported in June in the growth in consumer instalment debt, and an increase in book value inventory change.

In July, the workweek and industrial materials prices rose while common stock prices declined slightly.

<u>Labor market</u>. The labor market has remained generally strong although there have been some mixed tendencies in recent months. Unemployment declined further in July--the rate was down nearly a point from a year ago. Growth of both private nonfarm employment and manhours, however, has slowed perceptibly in the past few months from the previous rapid pace, with little change from June to July. Manufacturing employment declined in July while the factory workweek moved back up three-tenths of an hour to its April level.

Manhours of production workers increased at a 4-1/2 per cent annual rate from October 1971 to April 1973 and at a 3 per cent rate from this April to July. Over the same period, growth in private payroll employment slowed from a 4 per cent annual rate to a 2-1/4 per cent rate. Slowing was apparent in both the goods and service sectors, and may have resulted in part from capacity limitations in some industries. In others, employers may be having difficulty locating qualified workers, although most indicators of overall labor market stringencies--job vacancies, unemployment rates for industries and areas--still show somewhat less tightness than in the late sixties.

CHANGES IN PRIVATE NONFARM EMPLOYMENT AND MANHOURS
(Per cent change; seasonally adjusted, annual rate)

	Oct. 1971- Oct. 1972	Oct. 1972- April 1973	April 1973- July 1973
Private nonfarm employment	3.9	4.4	2.3
Goods-producting	4.0	4.5	2.9
Service-producing	3.8	4.3	1.9
Production workers manhours	4.8	4.3	2.9
Goods-producing	6.5	5.6	3.1
Service-producing	3.7	3.7	2.4

<u>Unemployment and labor force</u>. The unemployment rate edged down 0.1 percentage point in July to 4.7 per cent as total employment remained unchanged and the civilian labor force declined somewhat. The decline in unemployment was concentrated among adults, primarily 20-24 year-old men and women 25 years and over. Teenage unemployment rose, as did the relatively volatile Negro unemployment rate, but all rates were below a year earlier.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972	1973		
	July	January	June	July
Total	5.6	5.0	4.8	4.7
Men aged:				
20-24 years	9.3	7.7	7.4	6.9
25 years and over	3.0	2.6	2.5	2.4
Women aged:				
20-24 years	9.9	8.9	8.0	9.4
25 years and over	4.8	4.4	4.2	3.9
Teenagers	15.5	14.3	13.3	14.4
Household heads	3.3	2.9	2.9	2.7
White	5.0	4.6	4.3	4.1
Negro and other races	10.0	8.9	8.5	9.3

Although the labor force fell in July, overall growth in the labor force has been quite rapid since the beginning of the year. Over 60 per cent of the recent gain in the labor force has been among women 20 years and over, possibly reflecting attempts to increase family incomes in the face of sharply rising prices. During the past twelve months, the labor force has increased by 2.3 million--substantially above the "normal" increase of about 1-1/2 million.

Earnings. The hourly earnings index for the private nonfarm sector--the closest approximation available to an overall wage rate measure--rose at a 5-1/2 per cent annual rate in July and was 6.1 per cent higher than a year earlier. The index increased at a 5.7 per cent annual rate between January and July, but the moderate nature of the increases in manufacturing and construction are not likely to continue. A speed-up has been evident in trade and services, industry groups that led the wage upswing when labor markets tightened in the late sixties, and wage rates of hired farm labor were also reported to have increased rapidly over the past three months.

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

	July 1971-July 1972	July 1972-Jan. 1973	Jan. 1973-July 1973
Private nonfarm	6.1	6.3	5.7
Manufacturing	5.8	6.0	5.3
Construction	5.3	11.3	2.5
Transportation	10.9	8.9	6.3
Trade	5.0	4.9	6.6
Services	5.1	5.6	5.9

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

<u>Productivity and costs</u>. With growth in real GNP output reported to have slipped considerably, productivity changed little in the second quarter in the total private and in the private nonfarm sectors, according to preliminary figures. Over the previous four quarters, advances in output per manhour had been well above the long-term average.

Compensation per manhour, which covers both production and nonproduction workers and includes fringe benefits, rose at a 5.6 per cent annual rate in the second quarter for private nonfarm industries. This was down from the 10.7 per cent rate in the first quarter when over 3-1/2 percentage points of the rise reflected the effect of increased employer social security taxes. Compared to a year ago, compensation per manhour was up by 7-1/2 per cent in the nonfarm sector. Since hourly compensation rose in the second quarter while productivity showed little change, unit labor costs were up very sharply--at a 5.9 per cent annual rate--for the second successive quarter after a year and a half of comparatively moderate increase.

PRODUCTIVITY, COMPENSATION AND UNIT LABOR COSTS
IN THE PRIVATE NONFARM SECTOR
(Per cent change from previous period at annual rate;
based on seasonally adjusted data)

		Output per manhour	Compensation per manhour	Unit labor costs
1972:	QI	2.5	9.9	7.2
	QII	5.7	5.2	- .5
	QIII	5.6	6.7	1.0
	QIV	4.7	6.8	2.0
	Year	4.2	6.9	2.6
1973:	QI	5.0	10.7	5.4
	QII p/	- .3	5.6	5.9

p/ Preliminary.

<u>Collective bargaining</u>. Wage and benefit increases in major collective bargaining settlements in the second quarter continued the recent pattern of fairly moderate settlements--averaging 6.6 per cent over the life of the contract exclusive of possible cost of living increases included in escalator clauses. This is up from the 5.5 per cent first quarter average, but well below the 7.4 per cent average increase in 1972 and 8.8 per cent in 1971.

The increase in wages alone reported for the second quarter (shown in the table) averaged 5.7 per cent over the contract duration--somewhat above the first quarter increase but significantly less than the 1972 and 1971 averages. In manufacturing, the average second quarter wage adjustment was 5-1/4 per cent, mainly due to settlements negotiated in the rubber and electrical equipment industries. The second quarter pay gains outside of manufacturing primarily reflected settlements in trucking and construction.

Collective bargaining agreements in the second quarter covered about 1.4 million workers. So far this year, 2.2 million workers have been affected by major settlements (covering 1,000 or more workers). An additional 2.5 million workers will be affected by negotiations later this summer with the major contracts in the auto industry (which cover about 700,000 workers) and farm machinery expiring in mid-September.

In other collective bargaining developments, Western Union reached agreement with about 13,000 workers on a new three year contract which provides pay raises averaging about 6 per cent a year. The package includes a cost-of-living escalator which could pay out a maximum of 25 cents in the second and third contract years, increased pension funding, and early retirement provisions.

WAGE INCREASES PROVIDED BY MAJOR CONTRACT SETTLEMENTS*
(Mean per cent wage adjustment--annual rate)

	1971	1972	1973p	
			Q I	QII
Average over life of contract				
Total	8.1	6.4	4.5	5.7
Manufacturing	7.3	5.6	6.1	5.2
Nonmanufacturing	8.9	6.9	3.8	5.8
Construction	10.8	6.0	4.9	5.8
First year				
Total	11.6	7.3	5.3	6.1
Manufacturing	10.9	6.6	6.5	6.0
Nonmanufacturing	12.2	7.8	4.7	6.1
Construction	12.6	6.9	4.5	6.3

* Applies to settlements affecting 1,000 or more workers.
p - preliminary.

Minimum Wage. Congress passed minimum wage legislation on August 4 which would raise the nonfarm minimum to $2.20 an hour by 1975, extend coverage to about 8 million government and domestic workers, and bring farm workers' wages into parity with nonagricultural employees over the next four years. Specifically, the legislation provides increases for those covered by the Fair Labor Standards Act before 1966 from $1.60 an hour to $2.00 an hour two months after enactment, and to $2.20 an hour July 1, 1974. For those workers covered by the FLSA amendments and those newly covered by the Act, the minimum wage would be $1.80 an hour this year, $2.00 an hour July 1, 1974, and $2.20 in July 1975. The statutory minimum for farm workers would rise in four steps, reaching $2.20 in July 1976.

The initial step of this legislation is estimated by the Labor Department to raise wages at an annual rate of about a $1.6 billion, with further increases of $1.7 billion next year and $1.0 billion in 1975. Congress has delayed sending the bill to the President until after September 5 when the House and Senate reconvene so that they can attempt to override a possible veto.

Consumer prices. Consumer prices rose rapidly again in June as food prices climbed further, although less sharply than the average rise for the January-June period. Prices of other commodities and of services, however, increased at a faster pace than in previous months. The index for June is based mainly on price developments before the freeze.

CONSUMER PRICES

(Percentage changes, seasonally adjusted annual rates)

	Relative importance Dec. 1972	Phase II Nov. 1971 to Jan. 1973	Phase III Jan. 1973 to June 1973	May 1973 to June 1973
		(14 months)	(5 months)	
All items	100.0	3.6	8.3	7.0
Food	22.5	6.5	20.3	11.9
Commodities less food	40.1	2.4	5.2	6.0
Services 1/	37.4	3.5	4.3	5.4
Addendum:				
All items less mortgage costs 2/	96.3	3.7	8.7	5.6
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	6.1	7.1

1/ Not seasonally adjusted.
2/ Home financial 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.

While meat prices were restrained by ceilings, fresh vegetable and egg prices soared and substantial further increases were posted for cereal and bakery and dairy products. Large advances for gasoline and fuel oil weighed heavily in the index for nonfood commodities. The cost of home maintenance and repair services rose sharply and increases for other services continued substantial.

In July the index will reflect, in the main, price behavior during the freeze, but the August figures will include the very large increases in food prices which have occurred since mid-July, when a pass-through of costs of the raw agricultural product to the retail level was permitted except for beef.

Wholesale prices. The wholesale price index, seasonally adjusted, declined from June to July, the first drop since September 1971 (October 1972 on an unadjusted basis). The 1.4 per cent decline (not annual rate) resulted from a sharp, but temporary, drop in prices of farm and food products which more than offset a slight increase for industrial commodities.

Sharply lower prices for manufactured animal feeds, soybeans, grains, and eggs were mainly responsible for the decline of 4.6 per cent in prices of farm and food products. Except for eggs, the drop largely reflected a short-term reaction to the imposition of export controls and is expected to have little effect on grocery store prices.

With the freeze in effect, the index of industrial commodities rose 0.1 per cent in July (unchanged before seasonal adjustment) as lower prices for lumber and wood products and nonmetallic minerals were more than offset by increases for other commodities including chemicals, metals and metal products, fuels and power, and textiles. Prices of imports increased about 4-1/2 per cent, but the weight of these items is too small to have much effect on the over-all index.

In view of very large recent price increases, the index of prices of farm and food products for August is estimated by the staff to be about one-fifth higher than that reported for July. The following are examples of price change for major commodities since July 10.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	1972		1973		
				Phase III	
					Freeze
	Dec. 1971 to June 1972	June to Dec.	Dec. 1972 to June 1973	Jan. to July	June to July
All commodities	4.7	8.3	22.3	16.6	-15.5
Farm products	5.9	23.4	47.5	27.5	-43.0
Industrial commodities	4.2	2.9	12.5	12.0	.7
Crude materials	9.4	12.4	23.3	24.1	15.1
Intermediate materials	4.5	3.6	13.3	12.6	- .9
Finished goods	2.9	1.5	10.0	9.7	- 1.0
Producer	3.6	.7	5.7	5.7	1.0
Consumer	2.5	1.9	12.2	11.7	- 2.0
Consumer finished foods	3.8	12.5	28.3	18.8	- 9.5

Note: Farm products include farm products and processed foods and feeds. Crude materials exclude crude foodstuffs and feedstuffs, plant and animal fibers, oil-seeds, 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.

The August WPI will not reflect post-freeze developments in non-food commodities to any substantial extent because the freeze was lifted on August 12, only two days before the August pricing date, and the largest firms must prenotify the Cost of Living Council 30 days before any price increase can become effective. Some companies, notably in the automobile and steel industries, have announced that they either had prenotified or were about to prenotify the Cost of Living Council of their intention to increase prices. The big four auto producers have all asked the Cost of Living Council for approval to raise prices on 1974 models. Most of the increases averaging from $55 to $106 per vehicle, are to cover the cost of safety and pollution-control devices required by the government. The increases proposed by some steel companies on steel sheet and strip--about 5 per cent--are similar to those that were set to be inaugurated in mid-June but were stopped by the freeze.

WHOLESALE SPOT PRICES 1/
(Percentage Changes)

Commodity	June 12, 1973 to July 10, 1973	July 10, 1973 to Aug. 9, 1973
Flour	-5.6	45.4
Eggs	-2.6	41.2
Broilers	3.3	29.5
Hogs	7.3	48.8
Pork bellies	2.7	61.9
Steers	.4	19.7
Wheat	-12.2	108.2
Corn	-12.6	52.1
Soybeans	-46.4	72.2
Soybean meal	-48.8	75.6
Cotton	6.2	22.4

1/ Wall Street Journal

<u>Agriculture</u>. August 1 crop conditions indicate that 1973 corn, wheat, and soybean production will be lower than earlier expected, although still at record levels. The current corn forecast of 5,661 million bushels is 4 per cent less than the July prediction, due mainly to lower yields per acre than projected earlier. The soybean crop forecast dropped 3 per cent, to 20 per cent above last year, and forecast production of winter and spring wheat fell 2 per cent, to 11 per cent above last year.

Reduced crop expectations gave further stimulus to the rise in grain prices which has been under way since the end of the food price freeze on July 18. (See the table below.) Soybean prices, which had earlier stabilized around the $10.00 per bushel level in cash markets (and the $7.50 level in the new crop futures market), have also moved upward since the crop announcement. Restrictions on the export of old crop soybean products and substitutes, fully implemented on July 5, had been credited with bringing stability to the soybean market.

COMMODITY SPOT PRICES AND PERCENTAGE CHANGES
DURING AND AFTER THE FOOD PRICE FREEZE

	Prices			Percentage change	
	June 13a	July 18b	August 13	During freeze	After freeze
Corn(bu.)	$ 2.46	$ 2.47	$ 3.38	0	+37
Wheat(bu.)	2.85	2.76	5.19	-3	+88
Soybeans(bu.)	11.10	10.00	10.59	-10	+ 6
Hogs(cwt.)	37.80	43.10	61.00	+14	+42
Steers(cwt.)	46.90	48.62	56.40	+ 4	+16
Broilers(lb.)	.46	.50	.62	+ 9	+24

Source: Wall Street Journal.

a Date that the price freeze was announced, and also the date that export restrictions were first officially indicated as a possibility. Export restrictions on old crop soybeans were fully implemented on July 5 and remain to date.

b Date that the food price freeze was ended, and also when details of Phase IV were announced.

As shown in the table, hog and broiler prices have risen sharply since their decontrol on July 18. Retail and wholesale beef will remain under price ceilings until September 12. Cattle prices, nevertheless, have moved upward, squeezing processor's margins and causing packers to shut down.

Recent steep advances in prices of farm products suggest that the August Prices Received Index will show an increase of about one-fourth. The July index covered the freeze period and was unchanged from June at a level 35 per cent above a year ago.

Higher livestock and poultry prices have resulted, in part, from declines in meat production. July red meat and poultry production fell 4 per cent from the June level, seasonally adjusted. The slaughter of both hogs and cattle was down, the latter because of withholding as feedlots await the end of beef price ceilings on September 12.

Continuing high feed prices as indicated by smaller harvest expectations and strong world demand, will probably result in little or no expansion in broiler and hog operations in coming months. Build-up of cattle herds, however, continues. A record calf crop, 6 per cent larger than last year, is expected. These calves will start coming to market in 1975.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		July	33.5	25.9	10.3	-0.8
Reserves available (RPD's)		July	31.3	16.6	14.4	0.9
Money supply						
M1		July	264.6	6.4	9.9	6.8
M2		July	548.0	6.0	8.8	8.6
M3		July	863.7	6.0	8.6	10.2
Time and savings deposits (Less CDs)		July	283.4	5.9	7.8	10.4
CDs (dollar change in billions)		July	64.4	2.4	5.7	26.1
Savings flows (S&Ls + MSBs)		July	315.7	6.1	8.2	12.9
Bank credit (end of month)		July	605.5	10.8	11.3	15.6
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	8/1/73	10.57	0.36	3.14	6.01
Treasury bill (90 day)	"	8/1/73	8.28	0.59	2.04	4.46
Commercial paper (90-119 day)	"	8/1/73	10.00	1.44	2.87	5.27
New utility issue Aaa	"	8/3/73	8.31	--	0.91	0.91
Municipal bonds (Bond Buyer)	1 day	8/2/73	5.58	0.18	0.48	0.34
FNMA auction yield	FHA/VA	7/6/73	8.71	0.33	0.75	1.08
Dividends/price ratio (Common stocks)	wk. endg.	7/25/73	2.94	-0.15	-0.02	0.05
NYSE index (12/31/65=50)	end of day	8/13/73	55.23	0.11	0.97	6.60

Credit demands	Period	Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	July	2.5	0.7	22.6	6.0
Consumer instalment credit outstanding	June	1.6	1.4	11.0	7.0
Mortgage debt outst. (major holders)	May	5.3	5.0	21.3	19.5
Corporate bonds (public offerings)	May	1.0	1.7	6.0	8.7
Municipal long-term bonds (gross offerings)	May	2.0	2.0	9.6	10.0
Federally sponsored Agcy. (net borrowing)	Aug.	1.3	0.1	10.8	1.9
U.S. Treasury (net cash borrowing)	Aug.	0.0	0.9	1.6	2.4
Total of above credits		13.7	11.8	82.9	55.5

e - Estimated

DOMESTIC FINANCIAL SITUATION

Market interest rates have risen substantially further since the time of the July Committee meeting. Short-term yields increased from 65 to 100 basis points, and long-term yields--which were relatively stable earlier--adjusted upward by 20 to 65 basis points.

The rise in short-term market interest rates reflected tight money market conditions, large CD sales, liquidation of securities by banks and other financial institutions, and high dealer financing costs. A new $1.8 billion ($1.4 billion net) short-term offering by the Federal Home Loan Banks and the auctioning of $2 billion of short-dated tax anticipation bills as part of the Treasury's August refunding also added to market pressures.

Long-term rates were influenced by a growing market conviction that monetary policy might have to remain restrictive for a longer period than previously anticipated. Moreover, while corporate and municipal bond offerings remained relatively light, the Treasury auctioned $2.5 billion in notes and bonds at the end of July to refund debt maturing in mid-August.

Savings and loan associations are estimated to have had quite modest savings inflows in July, after seasonal adjustment, while savings banks suffered an actual outflow. The S&L's, with continuing heavy outstanding mortgage commitments, borrowed a record amount from the FHL Banks, even though the FHLBB reduced required liquidity ratios for the second time this year. With savings flows under pressure and outstanding commitments at very high levels, thrift institutions are reported to have cut back new mortgage commitments sharply in July and early August. These actions, in conjunction with a generally rising yield structure, contributed to increases in home mortgage rates of 30 to 40 basis points since mid-July.

Commercial bank inflows of time and savings deposits (other than large CD's) also moderated in July, but far less than at the competing thrift institutions. In late July, however, bank inflows strengthened, while there was further deterioration in savings experience of the non-bank thrift institutions. Banks also stepped up their sales of CD's in July as well as their borrowing in the relatively cheaper Euro-dollar markets. Most types of credit demands on banks remained large--particularly from nonfinancial businesses.

Outlook. Credit demands are likely to remain strong in the months ahead from the business sector and from Federal credit agencies. Indirect pressures are also likely to result from the portfolio adjustments of financial institutions. The Federal Government, on the other hand, is not expected to borrow in significant volume over the balance of the year.

Business credit demands are likely to continue to center on short-term market sources--including banks--in the months ahead. Underwriters report no indication of a build-up in the corporate security calendar. Businesses apparently feel no great pressure to finance long-term now, believing that funds will remain available from banks at a price and that long-term funds can be obtained later at reduced cost.

If business credit demands continue to focus on short-term markets, banks will be pressed to raise additional funds by CD sales, Euro-dollar borrowing, and further portfolio adjustments. In turn, banks can be expected to raise the prime rate further and to tighten non-price lending terms, which could contribute to rising commercial paper issues. While inflow of consumer-type time deposits to banks may continue to be buttressed by the higher offering rates, it seems likely that inflows will moderate as the initial public response wears off.

The changed position of the non-bank thrift institution has led us to raise our projections of agency borrowing over the balance of the calendar year to at least $10 billion. This is $4 billion more than at the time of the last Greenbook, entirely reflecting increased borrowing by the housing credit agencies.

On balance, upward pressures on interest rates are likely to persist over the weeks and months ahead. Assuming no further rise in the Federal funds rate, the pressures in short-term markets may not be as pronounced as in recent weeks. However, mortgage interest rates are likely to rise substantially further. Moreover, long-term bond rates will be rising in sympathy with short-term yields, and this rise would be larger if corporations begin to step up their capital markets financing this fall.

Monetary aggregates. Preliminary data for July indicate substantial moderation in growth rates of all major monetary aggregates from the rapid pace of the previous two months. For M_1, the 6.4 per cent July annual growth rate--about half that of June--was only slightly above the 6 per cent average for the first half of the year. Growth rates of M_2 and M_3 were somewhat lower than for M_1 as a result of reduced inflows of time deposits other than large CD's at commercial banks and at thrift institutions.

At commercial banks, savings and small denomination time deposits increased at a 6 per cent annual rate in July, as compared to 8.7 per cent in the second quarter. As shown in the table, however, the composition of time deposit growth at larger banks reflected distinct differences among growth rates of various types of consumer-type deposits in July, with banks continuing to experience substantial outflows of savings deposits while other small denomination time deposits showed relatively strong inflows. Increased strength in these other time deposits until late July reflected inflows of deposits not subject to Q ceiling since July 1 (line 3 of the table).

In July, banks actively competed for consumer funds by advertising generally higher rates on a wide variety of small denomination instruments including the 4-year deposits exempted from the Q ceilings. As a result, although total inflows of consumer-type time and savings deposits (line 5 of the table) were weaker on average in July, there was a significant pickup in inflows late in the month, as investors began to respond to the new deposit instruments being offered by banks (see right panel of the table). In the week ended August 1, weekly reporting

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972	1973				
	QIV	QI	QII	May	June	July p/
		Per cent at annual rates				
M_1 (Currency plus private demand deposits)	8.6	1.7	10.3	10.7	12.4	6.4
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	10.2	5.7	9.5	9.8	10.4	5.9
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	11.5	8.6	9.4	9.1	10.4	6.0
Adjusted bank credit proxy	12.1	15.0	12.2	12.1	11.1	9.4
Time and savings deposits at commercial banks						
a. Total	14.4	23.1	16.0	18.2	8.1	12.9
b. Other than large CD's	11.6	9.5	8.7	9.1	8.1	6.0
		Billions of dollars 1/				
Memorandum:						
a. U. S. Government demand deposits	.5	.3	- .8	- 1.2	.5	- 1.6
b. Negotiable CD's	1.1	3.9	2.4	3.1	.3	2.4
c. Nondeposit sources of funds	.1	.2	.2	.3	.2	.9

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.

CHANGES IN TIME AND SAVINGS DEPOSITS, IPC, SINCE MID-YEAR
WEEKLY REPORTING BANKS
(Millions of dollars)

Type of Deposit	June 27-July 25, 1973 and comparable periods of earlier years					July 25-August 1, 1973 and comparable periods of earlier years				
	1969	1970	1971	1972	1973	1969	1970	1971	1972	1973
1. Savings deposits	-430	231	-126	74	-608	-156	- 61	-163	- 26	-266
2. Other IPC time deposits less CD's less 4 year deposits	n.a.	n.a.	n.a.	n.a.	- 77	n.a.	n.a.	n.a.	n.a.	459 2/
3. 4 year deposits, IPC	n.a.	n.a.	n.a.	n.a.	590 1/	n.a.	n.a.	n.a.	n.a.	400 2/
4. Total consumer-type time deposits (2 + 3)	-252	781	48	34	513	- 11	135	15	382	859
5. Total consumer-type time and savings deposits (1 + 4)	-682	1,012	- 78	108	- 95	-167	74	-148	356	633

1/ The amount of 4 year deposits outstanding prior to July 1 was partially estimated based on data from 117 large banks having a large proportion of the total amount of 4 year deposits as of July 25.
2/ Excludes six banks which are late reporters.

banks indicated a large increase in consumer-type deposits--more than offsetting the decline in savings balances--with both consumer-type time deposits subject and not subject to Q ceilings showing considerable strength.

Banks also continued to bid aggressively in CD markets, and sales of large negotiable CD's in July were considerably above their slackened June volume. Paced by rising market interest rates, banks increased offering rates on CD's more than 150 basis points during the month, reaching levels above 10 per cent by early August. Although rates on all maturity ranges increased substantially during this period, the greatest volume of sales was in short-term issues; consequently, the average maturity of CD's sold at large banks in July was only 1.8 months as compared to 2.4 months in June.

In addition, member banks substantially increased their borrowings of Euro-dollars in July, which accounted for most of the $900 million increase in nondeposit sources of funds. The increase in Euro-dollar borrowing apparently resulted as banks were better able to take advantage of a favorable rate spread between Euro-dollar and Federal funds rates during the month, because of the recent reduction in reserve requirements on member bank Euro-dollar holdings from 20 to 8 per cent.

A sharp decline in Government demand deposits along with the slower growth in private deposits more than offset the expansion in CD's and nondeposit sources of funds, contributing to a reduction in growth of the adjusted bank credit proxy in July. After expanding at a 12.2 per cent annual rate in the second quarter, the proxy grew at a rate of 9.4 per cent in July.

<u>Bank credit</u>. Total loans and investments of commercial banks (last-Wednesday-of-the-month series, seasonally adjusted) increased at close to an 11 per cent annual rate in July, following a sharply reduced rate of growth in June. The impetus for this expansion came in part from business loans which rose at an annual rate of approximately 20 per cent. In addition, loans to non-bank financial institutions were much stronger in July than in June, while most other loan categories only slowed moderately from their sustained growth pattern of previous months. Banks obtained additional funds to meet rising loan demands by liquidating a sizable volume of short-term Treasury bills in July. At the same time banks moderately increased their holdings of other securities, probably reflecting the relatively large volume of agency offerings during the month.

Business credit demands at banks remained high in July and early August despite additional upward adjustments in the prime rate charged large customers to 9-1/4 per cent and in reportedly tighter non-price lending terms. With the spread between commercial paper rates and the prime rate still favoring banks, business borrowing in commercial paper markets showed little net increase from its June level.

Nonbank financial institutions--particularly finance companies--increased their use of bank lines of credit in July apparently in response to sharply rising commercial paper rates. The volume of directly placed commercial paper outstanding (seasonally adjusted) declined $500 million during July as rates on discounted paper reached 9-3/8 per cent at the end of the month, more than 100 basis points higher than a month earlier.

Both real estate and consumer loans increased at rates somewhat below their second quarter pace in July, although both still were strong. While most other loan categories were generally strong in July, security loans continued to decline as dealers in U.S. Government and other securities--faced with excessively high carrying costs--scaled down their inventories to minimum levels.

Strong bank credit demands, accompanied by a reduction in security holdings in July, contributed to a further decline in bank liquidity as measured by the ratio of liquid assets to liabilities. At the larger banks this ratio has declined continuously since late 1972 and is now at the lowest level since mid-1971.

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

	1972		1973					
	QIV		QI	QII	June r/		July	
Total loans and investments 2/	16.4	(17.0)	18.4	9.8	3.8	(6.0)	10.8	(10.2)
U.S. Treasury securities	2.6		-11.5	1.3	22.1		-41.4	
Other securities	12.0		1.0	2.7	-7.1		15.3	
Total loans 2/	20.3	(21.2)	28.6	13.0	4.3	(7.4)	17.1	(16.2)
Business loans 2/	15.5		39.1	20.3	13.7		19.9	
Real estate loans	19.2		15.9	15.7	16.1		12.5	
Consumer loans	19.0		17.6	14.2	12.7		12.6	

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.
r/ Revised.
Note: Data in parentheses are adjusted to exclude System-matched sale-purchase transactions.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER1/
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business loans at all commercial banks 2/	Dealer-placed commercial paper	Total	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	2.6	20.6
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	.6	2.3	17.5
July	2.5	.1e/	2.6e/	19.5e/

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Measured from end-of-month to end-of-month.
e/ Partially estimated.

<u>Nonbank financial institutions</u>. Estimates based on sample data indicate that both savings and loan associations and mutual savings banks experienced net deposit outflows during the month of July. After adjustment for seasonal patterns, the S&L's had a growth rate of about 1.5 per cent while MSB deposits showed an attrition rate of about 3.5 per cent. If the universe data confirm the sample results, this would represent the weakest deposit performance at S&L's since January 1970 and the second poorest on record for mutual savings banks.

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

	Mutual savings banks	Savings and loan association	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QIIp	6.8	10.4	9.3
1973 - May	5.8	10.8	9.3
June p	9.5	13.2	12.1
July e	-3.5	1.5	- .1

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

At both sets of institutions disintermediation accelerated during the latter part of the month. Sample S&L data, excluding interest credited, reveal a pattern of estimated deposit flows during the month of $400 million for the first 10 days, -$200 million for the second 10 days and -$700 million during the last part of July. At the large New York City mutual savings banks, nearly half of the monthly net loss occurred during the final week of the month. The sharp further upward movement in market rates in recent weeks has placed the rates paid by the thrift institutions in an unfavorable position relative to yields on alternative investments, despite the changes in Regulation Q ceiling rates effective July 1st. In addition, some funds at the nonbank institutions may have been shifted to the more attractive 4-year ceiling free accounts offered by certain commercial banks.

In order to cover deposit withdrawals and to meet take-downs of outstanding commitments, S&L's have borrowed heavily from the FHLBanks. The net increase in FHLB advances totalled a record $1.3 billion during July, of which $650 million--about half of the total--was borrowed during the last 10 days of the month. During the first 8 business days of August, advances continued strong, averaging about $60 million a day, but the rate of new advances made has moderated most recently.

In response to heavy demands for funds as well as pressure on their own liquidity positions, the FHLBanks have imposed more stringent lending policies recently. The rate on newly borrowed funds is now more closely related to the marginal costs of funds of the FHLBanks, with loans to S&L's in some cases carrying rates exceeding 9 per cent. Moreover, since S&L liquidity requirements were reduced from 6.5 per cent to 5.5 per cent effective August 2, the S&L's now have the option of drawing down liquid assets further as a source of funds--an activity which the FHLBanks are expected to encourage, if not require, before extending additional advances to individual associations.

The borrowing patterns of S&L's early in August are suggestive of continuing deposit outflows at these institutions. At the New York mutual savings banks, however, data for the first five business days of August indicate that these institutions had deposit inflows about equal to withdrawals.

Changing interest rate relationships have also had an impact on policy loans at life insurance companies. In June, the net amount of policy loans made during the month rose modestly, but the monthly volume remained substantially below that recorded during 1969. Fragmentary data for July reveal an appreciable acceleration in the amount of new policy loans made. Nevertheless, industry reports suggest that life insurance companies generally have maintained a relatively comfortable liquidity cushion and, therefore, are not experiencing unusual pressures at this juncture.

Consumer credit. The rate of growth in total consumer credit outstanding slowed in June and in the second quarter as a whole from its very rapid rate earlier. During the April-June period, consumer credit rose at a $24.1 billion seasonally adjusted annual rate, compared with $25.3 billion in the first quarter and a peak rate of $26.1 billion in the fourth quarter of 1972. In June, instalment credit increased at a rate of $19.3 billion--the smallest increase so far this year except for April--whereas noninstalment debt was up $5.4 billion--the second-largest advance on record.

Slower growth in instalment credit during June reflected mainly a decline in extensions. Most of the recent slackening in growth of extensions has occurred in the automobile sector, where reduced credit demand has reflected to some extent unbalanced dealer inventories. However, instalment lending for mobile homes--which may be more directly influenced by current money market conditions--also has been curtailed. Mobile home loan extensions declined sharply from May to June at commercial banks and finance companies, dropping to a year-over-year increase of less than 1 per cent at banks--the principal lender on this type of collateral--and to 14 per cent at finance companies. While the tapering this spring may be partly attributable to demand factors associated with production and distribution dislocations, it also appears that financial institutions are taking a tougher stance on these relatively long-term consumer credit commitments. Not only have nearly all of the major finance companies boosted interest rates on mobile home contracts--where rates are generally below legal ceilings--but growth in the average amount financed has slowed despite substantial advances in unit values.

MOBILE HOME LOAN EXTENSIONS
(Per cent change from year earlier, not seasonally adjusted)

	Commercial Banks	Finance Companies
1973		
January	36.3	31.1
February	31.7	23.9
March	22.2	22.6
QI	29.3	25.4
April	29.5	24.8
May	16.3	29.1
June	.3	14.5
QII	13.8	22.7

The seasonally adjusted delinquency rate on consumer instalment loans at commercial banks eased to 1.75 per cent in June from April's high of 1.81 per cent. Delinquency rates receded on all types of loans except direct auto loans and mobile home loans. The mobile home delinquency rate in June, at 2.27 per cent, was well above the 1.77 per cent rate of June last year. At major finance companies, the delinquency rate on auto contracts was virtually unchanged in June, but rates of repossession edged upward. Contract refinancings continued to occur at a relatively low rate.

<u>Short-term markets</u>. Upward yield adjustments on short-term debt instruments have been substantial since the July Committee meeting. In general, yields on private obligations rose 100-150 basis points, while rates on Treasury bills maturing in 6 months or less have increased 90-110 basis points. In the three month maturity area CD's are currently being sold to yield 10-7/8 per cent, commercial paper is quoted at a discount rate of 10-1/4 per cent, and Treasury bills were most recently bid around 9.00 per cent on a bank discount basis. Responding to this uptrend in market rates, the bank prime rate rose by 100 basis points to 9-1/4 per cent.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily rates					Change
	July 17	July 24	July 31	Aug 7	Aug 14	July 17-Aug 14
Commercial paper						
90-119 days	9.13	9.63	9.88	10.13	10.25	1.12
4-6 months	9.00	9.63	9.88	10.00	10.25	1.25
Large negot. CD's 1/						
3 months	9.60	10.20	10.30	10.75	10.88	1.28
6 months	9.25	9.88	10.30	10.63	11.00	1.75
Bankers' accepts.						
61-90 days	9.25	9.63	10.00	10.50	10.75	1.50
150-180 days	9.25	9.63	10.00	10.50	10.75	1.50
Federal agencies						
1 year	8.42	8.88	9.09	9.28	9.44	1.02
Bank prime rate						
(most prevalent)	8.25	8.50	8.75	9.00	9.25	1.00

1/ Highest quoted new issue.

Short-term interest rates are now well above their 1969-70 record highs. In addition to the pull of the Federal funds rate--which was quoted at 10-1/2 per cent or above on most days since the July meeting---aggressive bidding for large negotiable CD's by banks, reflecting strong private demands for bank credit, continue to provide the impetus for rates to move higher. With the rate on commercial paper moving up in sympathy with other rates, there is little incentive for borrowers to shift their financing needs out of banks into the open market.

Additional upward rate pressure in the short-term area seems to have been generated by sizable Federal agency borrowing. During the second week in August, for example, the Federal Home Loan Banks in a 3-part offering, raised $1.4 billion of new money in the 6-month, 1-year, and 2-1/2 year maturity areas. At the same time, as part of its refinancing package, the Treasury was auctioning $2 billion of 35-day tax anticipation bills. The tight condition of the short-term markets was reflected in the 9.80 per cent average yield set on the TAB, despite 50 per cent tax and loan credit available to banks.

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

	Daily rates					Change
	July 17	July 24	July 31	Aug 7	Aug 14	July 17-Aug 14
Treasury bills						
3-months	7.96	8.18	8.32	8.75	9.05	1.09
6-months	8.07	8.32	8.40	8.86	8.96	.89
1-year	7.80	8.26	8.37	8.46	8.43	.63
Notes and Bonds (Constant Maturity)						
1-year	8.26	8.67	8.87	9.23	9.02	.76
5-years	7.22	7.50	7.87	8.13	7.81	.59
7-years	7.14	7.37	7.65	7.82	7.66	.52
10-years	7.06	7.19	7.43	7.58	7.46	.40
20-years	7.21	7.33	7.63	7.83	7.73	.52
	Statement week ended					
	July 18	July 25	Aug. 1	Aug 8	Aug 15 1/	Change--week ending July 18 to week ending Aug. 15
Memorandum:						
Federal funds (daily average)	10.22	10.58	10.57	10.39	10.50	.28

1/ Average for first 6 days of the week.

<u>Long-term private security markets.</u> Reflecting the quantum jump in short-term interest rates, yields on long-term securities adjusted up sharply over the last few weeks. In mid-August, yields on newly issued Aaa utility bonds were 60 basis points higher than in mid-July, and yields on recently offered bonds trading freely in the market rose over 50 basis points during the same period. The Bond Buyer index of long-term tax-exempt yields advanced about 20 basis points, but this index probably understates the amount of price erosion in the municipal markets.

Demands on the bond market by corporations have remained quite moderate in the summer months. The public bond calendar is estimated to average about $900 million during the third quarter, a roughly seasonal drop from the $1.0 billion per month pace during the first half of 1973. Underwriters continue to report that many potential corporate bond issuers have considerable financial flexibility and anticipate lower long-term rates in 1974. Hence, such firms are induced to delay long-term funding, focusing their external fund requirements on short-term markets. In the private placement market, commitment data and expected takedowns suggest monthly volume of $600 to $700 million, a small increase from earlier months this year. Extensions of new commitments reportedly have slowed, given the developing concern over future cash flows at life insurance companies and the heavy volume of outstanding commitments.

New stock issues are estimated to have slackened to an average monthly pace of about $700 million during the third quarter. Equity offerings have been inhibited by the comparatively high cost of such financing resulting from the generally poor performance of

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	U.S. Government bonds (10-year constant maturity)
1970 - High	9.43 (6/19)	9.20 (6/26)	7.12 (5/29)	8.06 (5.29)
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	8.52 (8/10)	8.38 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	5.00 (1/19)	6.42 (1/3)
July 6	--*	7.80	5.34	7.02
13	7.92	7.85	5.40	7.05
20	7.92	7.94	5.37	7.09
27	8.03	8.12	5.48	7.24
Aug. 3	8.31	8.28	5.59	7.48
10	8.52 p	8.38 p	5.58	7.55

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.

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

	1972	1st Half e/	July e/	Aug f/	Sept f/
Corporate securities - Total	3,398	2,710	2,050	2,200	2,400
Public bonds	1,528	1,020	850	900	900
Privately placed bonds	780	635	600	600	800
Stock	1,087	1,055	600	700	700
State and local gov't. Securities	1,970	1,920	1,950	1,700	1,800

e/ Estimated.
f/ Forecast.

equity markets. Although stock prices rose appreciably during July in increased trading activity, prices declined again in late July and early August. Price/earnings ratios for many stocks continue at historically low levels.

Long-term debt offerings by State and local governments, after remaining close to $2 billion in both June and July, appear to have declined somewhat. The staff estimates August volume at $1.7 billion. There may be some pick-up in September, but at present the calendar is light. Dealers report some liquidation of municipals by commercial banks, but casualty company purchases remain strong and buying by individuals appears to be increasing in recent weeks, especially in the shorter-term area.

The Board series on net change in sales of municipal short-term securities indicated an increase of $450 million in July, all of it in sales of notes by housing authorities. These borrowers may encounter difficulty in future sales because of interest rate ceilings, however. Rates on three-month Prime Municipal Notes (PHA's) reached 6.00 per cent in the week ending August 3, up 60 basis points from the preceding week and 225 basis points above their 1973 low. In general, yields on short-term municipal securities have kept pace with the rise in other short-term rates.

Mortgage market. During July, savings and loan associations cut the volume of their new mortgage commitments quite sharply below the substantially reduced June rate, according to tentative early estimates. The seasonally adjusted backlog of S&L mortgage commitments outstanding (including loans in process) also apparently dropped further from the June level, which had been 9 per cent below the February peak.

Interest rates on conventional home loans continued to rise in the primary mortgage market during July and early August. According to the FHLMC weekly series for 120 S&L's, contract interest rates on new commitments for 80 per cent loan-to-value ratio home loans averaged 8.40 per cent on August 10--up 22 basis points since the end of July and 64 basis points since the end of June; even at these rates, S&L mortgage funds were said to be in short supply in 9 out of 12 Federal Home Loan Bank Districts.

During July, contract interest rates on new-home mortgage commitments available at all types of lenders increased by 35 basis points, according to the HUD(FHA) series. The increase, the largest for a single month since the series began in 1963, brought the average to 8.35 per cent, the highest level since late 1970. However, the already-reduced spread favoring gross yields on this type of home mortgage over new issues of high-grade utility bonds narrowed further.

Usury ceilings have continued to limit the rise in interest rates on conventional home mortgages in numerous areas. Ceilings of 8 per cent or less now prevail in 17 States, including the District of Columbia, with 2 major States (New York and New Jersey) having raised their ceilings to 8 per cent from 7-1/2 per cent within the past month.

In the secondary market, yields on home mortgages also have increased further. In the latest (August 6) FNMA bi-weekly auction of forward commitments to purchase FHA/VA home mortgages, the average

RATES AND SUPPLY OF FUNDS FOR SELECTED CONVENTIONAL
HOME MORTGAGES AT 120 S&L'S

Date	Going rate on 80% loans (per cent)	Basis Point change from preceding period	Number of Federal Home Loan Bank Districts with funds in short supply
1973			
Jan.	7.44	0	0
Feb.	7.44	0	0
March	7.46	+ 2	0
April	7.54	+ 8	2
May	7.65	+ 11	4
June	7.73	+ 8	3
July	8.05	+ 32	7
June 8	7.73	+ 3	2
15	7.73	0	3
22	7.75	+ 2	3
29	7.76	+ 1	4
July 6	7.89	+ 13	5
13	8.01	+ 12	6
20	8.12	+ 11	7
27	8.18	+ 6	7
Aug. 3	8.26	+ 8	9
10	8.40	+ 14	9

yield was 8.71 per cent--up 16 basis points from the auction results two weeks earlier. Offers received by FNMA rose, apparently reflecting in part a reduction in mortgage purchases by S&L's. With discounts of about 7 points or more on FHA/VA mortgages bearing the new 7-3/4 per cent ceiling rate, pressures have been increasing to adjust the rate limit upward again.[1/]

1/ HUD(FHA) authority to insure mortgages through October 1, 1973, was provided by Public Law 93-85, effective August 10. Permanent authority for VA to guarantee mortgages at interest rates that may not necessarily be the same as the HUD(FHA) rate was given in Public Law 93-75, effective July 26.

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Offers Received (millions of dollars)	Offers Accepted (millions of dollars)	Per cent of offers accepted	Yield to FNMA 1/ (per cent)
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 - 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	536	245	46	8.38
23	351	181	52	8.54
Aug. 6	459	202	44	8.71

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, 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.

During the second quarter, expansion in mortgage debt outstanding slackened to a seasonally adjusted quarterly rate of $18 billion, down about 7 per cent below the first quarter high, owing mainly to slower growth in residential mortgage debt. Aided by exceptionally large advances from the Federal home loan banks, savings and loan associations accounted for a slightly larger share (more than half) of the total increase in net mortgage debt than in the first quarter.

Growth in mortgage holdings of commercial banks and mutual savings banks also was large. In contrast, net lending by the nondepositary Federal credit agencies operating in the secondary market was somewhat reduced, as GNMA mortgage sales rose.

Agricultural credit. Demand for farm production loans has remained strong this summer, reflecting in part further increases in feed, livestock, and other expenses of farm production. In the second quarter, farm production expenses were nearly 19 per cent higher than a year earlier, according to upward-revised Department of Agriculture estimates.

Meanwhile, the uptrend in interest rates on production loans has accelerated. By July 1, rates of 8 per cent or more were being charged by three-fourths of the 435 production credit associations, compared to only 20 per cent in January and 40 per cent in April. At commercial banks, interest charges on feeder cattle loans increased through June of this year by nearly 50 basis points.

Rates on farm real estate loans have also started to move upward. On August 1, 3 of the 12 Federal Land Banks raised their billing rate--the first upward adjustment since 1970. FLB rates now range between 7 and 8 per cent. At agricultural banks in the Minneapolis Federal Reserve District, a July 1 survey indicated that 22 per cent of the banks were charging rates of more than 8 per cent on farm real estate loans, compared with 11 per cent so reporting on April 1.

Federal Finance. Final budget figures for fiscal year 1973 (released on July 26th) showed a unified budget deficit of $14.4 billion, resulting from outlays of $246.6 billion and receipts of $232.2 billion. The deficit was $1.8 billion smaller than the July Greenbook estimate of $16.2 billion which was based on estimated outlays of $248.7 billion and receipts of $232.5 billion. This previous estimate of outlays for fiscal year 1973 had assumed an acceleration in spending during June in line with the Administration's June 1 estimate (Mid-session Budget Review). But this acceleration of spending did not materialize.

For fiscal year 1974, the Administration's June estimates showed a unified budget deficit of $2.7 billion. However, in the July 26 statement, the President stated that "with the economy now operating at a high level, revenues in fiscal year 1974 should approximate, without any tax increases, the overall level of expenditures proposed last January--about $269 billion." As yet, though, no official revised receipts estimates have been transmitted.

Based on increases in forecasts of personal income and corporate profits for calendar years 1973 and 1974, the staff has raised its fiscal year 1974 receipts estimate to about $271 billion. With outlays projected at $269.7 billion we are now forecasting a fiscal year 1974 surplus of more than $1.0 billion. However, many factors contribute to uncertainty at this early stage. As yet Congress has not enacted most of the major appropriations bills. Completed action to date adds about $1.4 billion to the fiscal year 1974 spending total. Another $1.0 billion could be added by court rulings calling for the release of certain impounded funds.

In contrast to these factors, there appears to be general Congressional agreement for the need of a spending ceiling. While no final agreement has as yet been reached, each House has approved a ceiling slightly below the $268.7 billion figure requested by the Administration. The inconsistency arising from expenditure increases (such as those noted above) and a Congressionally approved spending ceiling could be resolved through a change in the composition of spending. There is already some indication that the areas of defense and foreign military assistance may be targeted for spending cuts.

The end-of-July Treasury cash balance was $7.2 billion, the same as projected in the July Greenbook, although preliminary indications suggest that both receipts and outlays may have been underestimated. According to staff projections, there is a chance that the Treasury will need to borrow from the Federal Reserve System on a very limited basis for about two days around August 15. This situation arises because Congress has delayed enactment of the bill approving the latest devaluation of the dollar. As a result, the monetization of gold, which will add about $1.2 billion to the Treasury cash balance, is no longer reflected in the August cash balance figures. Our estimates for September indicate that the Treasury may directly borrow as much as $1.5 billion immediately before the mid-month heavy corporate tax receipts, assuming that gold is not monetized before that time. As shown in the attached table, net Treasury borrowing is expected to be negligible in the July-December period, when sizable seasonal borrowing normally takes place. In the July-December period of last year, Treasury borrowing totaled $17.4 billion. However, borrowing by government sponsored agencies is expected to total $9.8 billion in the second half of this year as compared with $1.7 billion a year ago.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	August	Sept.	Oct.
Total net borrowing	-0.3	0.0	-1.8	0.6
Weekly and monthly bills	-0.2	-0.1	--	--
Tax bills	--	2.0	-2.0	--
Coupon issues	--	2.5	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	-0.4	--	--	--
Agency transactions, debt repayment, etc.	0.3	-4.4	0.2	0.6
Plus: Other net financial sources a/	1.2	-1.7	.6	1.7
Plus: Budget surplus or deficit (-)	-6.3	-0.9	5.9	-6.2
Equals: Change in cash balance	-5.4 b/	-2.6	4.7	-3.9
Memoranda: Level of cash balance, end of period	7.2 b/	4.6	9.3	5.4
Derivation of budget surplus or deficit:				
Budget receipts	18.0	21.7	26.6	16.7
Budget outlays	24.3	22.6	20.7	22.9
Maturing coupon issues held by public	--	4.7	--	--
Sales of financial assets	0.3	0.1	0.6	0.1
Budget agency borrowing	*	0.3	--	0.5
Net borrowing by government-sponsored agencies	2.3	1.3	2.4	1.8

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

*--less than $50 million

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

	Fiscal Year 1973*	Fiscal 1974 e/ Adm. Est. 6-1-73 1/	Fiscal 1974 e/ F.R. Board	Calendar Years 1972 Actual	Calendar Years 1973 FRB e/	Calendar Quarters 1973 I*	Calendar Quarters 1973 II*	1973 III (F.R.B. Staff Estimates)	1973 IV (F.R.B. Staff Estimates)	1974 I (F.R.B. Staff Estimates)	1974 II (F.R.B. Staff Estimates)
Federal Budget											
Surplus/deficit	-14.4	-2.7	1.1	-17.4	-10.5	-9.5	7.6	-1.3	-7.3	-5.9	15.6
Receipts	232.2	266.0	270.8	221.5	250.8	55.2	70.9	66.3	58.4	61.5	84.5
Outlays	246.6	268.7	269.7	239.0	261.4	64.7	63.4	67.6	65.7	67.4	68
Means of financing:											
Net borrowing from the public	19.3	5.5	-4.7	15.2	2.0	8.4	-6.5	-2.1	2.2	2.6	-7.4
Decrease in cash operating balance	-2.5	n.a.	0.7	0.2	6.1	-1.8	0.3	3.3	4.3	0.3	-7.2
Other 2/	-2.4	n.a.	2.9	2.0	2.4	2.9	-1.4	0.1	0.8	3.0	-1.0
Cash operating balance, end of period	12.6	n.a.	11.9	11.1	5.0	12.9	12.6	9.3	5.0	4.7	11.9
Memo 3/: Sales of financial assets 4/	4.8 e/	n.a.	n.e.	3.1	4.7	1.2	1.6 e/	1.1	0.8	n.e.	n.e.
Budget agency borrowing 5/	0.4	n.a.	1.5	0.9	0.1	0.1	-0.6 e/	0.3	0.4	0.5	0.3
Sponsored agency borrowing 6/	8.9	n.a.	n.e.	3.5	17.0	2.0	5.2 e/	5.9	3.9	n.e.	n.e.
National Income Sector											
Surplus/deficit	-13.2 7/	-3.0	-5.6 7/	-15.9	-1.7	-5.0	-0.1 p/	-1.6	-0.1	-2.9	-4.8
Receipts	241.3 7/	273.3	270.7 7/	228.7	263.4	253.6	261.9 p/	266.2	272.0	277.5	280.2
Expenditures	254.5	276.3	276.3	244.6	265.1	258.6	262.0	267.8	272.1	280.4	285.
High Employment surplus/deficit (NIA basis) 8/	n.a.	n.a.	n.a.	0.4	-1.0	-0.9	0.5	-3.3	-0.3	3.9	8.7

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

1/ The President's statement of July 26, 1973, issued with the release of budget results for fiscal year 1973, indicated that a balanced budget is expected for fiscal 1974, implying a further increase in receipts estimates to about $268.7 billion.

footnotes continued

2/ Includes such items as deposit fund accounts and clearing accounts.
3/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessairly reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.
4/ 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.
5/ 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.
6/ 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.
7/ Quarterly average exceeds fiscal year total by $4.2 billion for fiscal 1973 and $3.3 billion for fiscal 1974 due to spreading of wage base and refund effect over calendar year.
8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

8/15/73

STRICTLY CONFIDENTIAL (FR)

III -- T - 1

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

	1972	1973p/			
	Year	Q-I	Q-II	May*	June*
Goods and services, net 1/	-4,609	1	706		
Trade balance 2/	-6,912	-960	-294	-221	-150
Exports 2/	-48,769	15,320	16,693	5,574	5,687
Imports 2/	-55,681	-16,280	-16,987	-5,795	-5,837
Service balance	2,303	961	1,000		
Remittances and pensions	-1,570	-400			
Govt. grants & capital, net	-3,513	-695			
U.S. private capital (- = outflow)	-8,534	-5,931			
Direct investment abroad	-3,404	-2,139			
Foreign securities	-614	47	-133	-1	34
Bank-reported claims -- liquid	-742	-1,296	821	-4	551
" " " other	-2,764	-2,053	-1,755	-303	-945
Nonbank-reported claims -- liquid	-492	-626	e/-30	-103	e/13
" " " other	-517	136			
Foreign capital (excl. reserve trans.)	10,287	559			
Direct investment in U.S.	160	247			
U.S. corporate stocks	2,268	1,288	124	-121	134
New U.S. direct investment issues	2,003	384	274		
Other U.S. securities (excl. U.S. Treas.)	64	66	91		
Liquid liabilities to:	4,776	-1,908	1,168	1,349	352
Commercial banks abroad	3,862	-1,925	735	1,226	224
Of which liab. to branches 3/	(178)	(-580)	(682)	(313)	(436)
Other private foreign	810	7	361	-1	173
Intl. & regional organizations	104	10	72	124	-45
Other nonliquid liabilities	1,016	482			
Liab. to foreign official reserve agencies	10,308	10,319	-480	162	-253
U.S. monetary reserves (increase, -)	742	220	17	-12	2
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	9	--	--
IMF gold tranche	153	-13	8	-4	-6
Convertible currencies	35	233	--	-8	8
Errors and omissions	-3,112	-4,073			
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,539	463		
" " , N.S.A.	-11,050	-9,998	799	-150	251
Net liquidity, S.A.		-6,709	e/-1,496		
" " , N.S.A.	-14,592	-6,297	e/-1,990	-1,392	e/-665
Liquidity, S.A. 5/		-8,631	-705		
" , N.S.A.	-15,826	-8,156	-1,203	-1,499	-101

* Monthly, only exports and imports are seasonally adjusted. e/ Estimate.

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. After a period of weakness in July, especially at the end of the month when a liquidity squeeze in Germany drove up interest rates abroad, the dollar has staged a strong recovery in the market. This strengthening of the exchange rate against other currencies was vigorous enough to accommodate sales of $830 million by major foreign central banks in the first half of August.

Probably the most immediate factor in the market has been the sharp further rise in U.S. interest rates, although there has also been some further increase in rates abroad. However, a more fundamental factor has been the progress of the U.S. balance of payments toward equilibrium. Estimates of the deficit on current and long-term capital transactions (the "basic' deficit) for the second quarter now suggest a reduction to an annual rate as low as $2 billion, compared to $5 billion in the first quarter and nearly $10 billion in 1971 and 1972. However, part of the estimated quarter-to-quarter improvement reflects large advance payments to the U.S. Government against future deliveries of uranium and military items as well as lower than average outflows for direct investments abroad.

The trade balance has improved markedly, and even apart from the jump in agricultural exports there are clear signs that the devaluation has moved exports and imports in the desired direction. A new element that is emerging, still based on partial data, is a surge in earnings of U.S. direct foreign investments, buoyed by rapid growth abroad and especially by high profits in the petroleum industry. As a result of these gains the balance on income and services is improving more than expected earlier in the year.

Net outflows of private long-term capital were probably only a little larger in the second quarter than in the first; though foreign purchases of U.S. corporate securities fell drastically, there was also a sharp drop in outflows for direct investment abroad. Foreign investors resumed net purchases of U.S. securities in June and they have reportedly been buyers since then.

The outflow of U.S. short-term capital reported by banks tapered off after the huge amount reported in February and there have probably been inflows, on balance, since June. Liquid liabilities to private foreigners rose by over $2 billion in the second quarter, reversing the drawdowns earlier in the year, and have tended to rise further in response to interest rate differentials.

The outlook for the balance of payments is generally favorable for the period ahead. Gains in agricultural exports can no longer be regarded as temporary, and supplies are sufficient to allow sales to remain high even if controls are put on to protect domestic users. Imports in volume terms have remained low, considering the strength of domestic demand, and are evidently being restraintd by the price effects of the devaluation, and also by some supply shortages abroad. Capital flows are likely to be inward, on balance, and further attrition of foreign dollar holdings may be possible.

<u>Foreign exchange markets</u>. Over the past two weeks the dollar has achieved a major turnaround and has shown impressive strength against continental European currencies while continuing to firm against sterling, the Canadian dollar and the yen. Since August 1, the dollar has appreciated by 4-1/2 to 6-1/2 per cent against continental currencies, while the central banks of Canada and Japan have sold roughly $525 million in moderating the appreciation of the dollar against their currencies. In addition, the System has sold a substantial amount of dollars to acquire marks, French francs, and Belgian francs to repay swap drawings of those currencies used in System intervention in July. Finally, the German Federal Bank sold $225 million as the dollar advanced against the mark.

The turning point for the dollar occurred in the period July 26-August 1 with the easing of the extreme liquidity squeeze on German banks, which had led to call money rates in excess of 30 per cent for several days previously and which had placed strong upward pressure on interest rates in other European money markets. On July 26, through a combination of exchange market and money market intervention the Bundesbank supplied a large amount of reserves to the banking system, bringing a steep decline in German call money rates. On August 1, following the Bundesbank's public announcement that it had closed its special re-discount facility, call money rates jumped again, and the Bundesbank immediately re-opened its special facility. This action, and subsequent ones, indicated to the market that the German central bank would not allow a return to the extreme liquidity squeeze that had obtained earlier.

At the same time that German money market pressures were eased, U.S. interest rates were rising sharply and continued to do so subsequently. The announcement of the Federal Reserve System's discount rate increase on August 13 was followed by a particularly sharp, even disorderly, advance of the dollar. As important as were the actual increases in U.S. interest rates were public statements by the Chairman suggesting that the System was prepared to see interest rates rise to whatever levels were needed to deal with the U.S. inflation. These interest rate developments, favorable to the dollar, were against the background of an improving U.S. trade picture, with the trade balance moving into surplus in the second quarter for the first time since early 1971. As of August 15, the dollar had appreciated against continental currencies by 8 to 11 per cent from its lows of July 6, just prior to the announcement of swap line increases and the commencement of System intervention; and by 5 to 9 per cent from July 26, at the height of the German liquidity crunch.

The easing of the liquidity situation in Germany, together with interest rate increases in other EC countries which had been precipitated by the German monetary stringency sufficed to ease pressure on the European snake which was again threatening to blow apart. Since late July there has been almost no intra-European intervention. (In the last half of July and the first half of August, discount rate increases were announced in France, Belgium, and the Netherlands (twice); and the Bank of England's minimum lending rate rose by 2-1/2 per cent to 11-1/2 per cent).

Sterling was under even more pressure than the dollar from the German situation and the Bank of England sold more than $350 million on July 25 and 26 to support sterling. After the huge jump in the Bank of England's minimum lending rate and a subsequent severe tightening of the British money market, sterling held fairly steady, with the Bank of England even buying dollars on a very short swap basis to keep sterling from appreciating.

Rising U.S. interest rates were also a major factor in the firming of the dollar against the Canadian dollar and, possibly, against the yen. The Bank of Canada sold U.S. $160 million as the Canadian dollar moved down to 99-1/4 U.S. cents, its lowest level since early 1972. (The Bank of Canada announced an increase in its discount rate by 1/2 per cent to 6-3/4 per cent on August 7). The Bank of Japan intervened, selling $360 million from August 1-15, to keep the yen from depreciating significantly against the dollar.

The gold bubble collapsed in early August as the price moved to $92.50 on the morning of August 15, down some $35 from the peak on July 6. This steep decline both reflected and added to the impetus of a stronger dollar on the exchanges.

Euro-dollar market. Euro-dollar rates have firmed sharply over the past 4 weeks reflecting the substantial increase in U.S. money market rates over this period and, to a lesser extent, a further tightening in foreign money markets. The overnight Euro-dollar rate, which averaged 9-1/3 per cent in the week ended July 11, increased to an average of 10-1/4 per cent for the week ended August 15. The increase in the Federal funds rate during this period was equally large and the overnight Euro-dollar rate remained, on most days during the period, at a level slightly below that of the Federal funds rate. Overnight Euro-dollar borrowing subject to the 8 per cent marginal reserve requirement continued slightly more expensive than Federal funds borrowing. Rates on one- and three-month Euro-dollar deposits moved further above comparable maturity CD rates during the period. The rate on one-month Euro-dollar deposits averaged slightly above 11 per cent in the week ended August 15, an increase of 1-1/2 percentage points from its level of 4 weeks ago.

U.S. banks have apparently continued to increase their use of Euro-dollar borrowing as a source of funds following the lowering of the marginal reserve requirement on such borrowing from 20 to 8 per cent. Preliminary data indicate that during the four-week computation period ended August 1, U.S. banks' average daily borrowing from their foreign branches may have increased by as much as $400 million. During the four-week computation period ended July 4, average daily borrowings by U.S. banks from their foreign branches increased by $60 million following an increase of $150 million during the previous four-week period. There is some indication that the marked easing of Euro-dollar rates in recent days caused by the increased demand for the dollar on exchange markets may have led to a sharp increase in U.S. banks' Euro-dollar borrowing.

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	7.11	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)
July	9.75	10.40	-0.65(0.20)	9.86	8.94	0.92	(1.00)
1973-July 11	9.23	9.52	-0.19(0.62)	9.69	8.75	0.94	(1.02)
18	9.59	10.22	-0.63(0.20)	9.90	9.00	0.90	(0.98)
25	10.27	10.58	-0.31(0.58)	11.08	9.50	1.58	(1.72)
Aug. 1	10.45	10.57	-0.12(0.79)	11.00	9.75	1.25	(1.36)
8	10.53	10.39	0.14(1.06)	11.21	10.00	1.21	(1.32)
15p/	10.23	10.50	-0.27(0.62)	11.08	10.00	1.08	(1.17)

1/ All Euro-dollar rates are non 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 the overnight Euro-dollar rate 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. Measured by the official settlements balance the U.S. balance of payments position improved substantially in the second quarter, registering a surplus of about $1/2 billion. The balance in July may have been a small surplus.

More significant, however, is the estimated (based on partial data) sharp decline in the deficit in the basic balance (sum of current account transactions and long-term capital flows) in the second quarter -- to an annual rate of less than $2 billion. This compares with a deficit rate of $5-1/2 billion in the first quarter and over $9-1/2 billion in both 1971 and 1972.

The improvement in the basic balance in the second quarter resulted from a further decline in the trade deficit and reduced net outflows for Government grants and credits and direct foreign investments. The net surplus on income and services is now estimated to have held to the high first quarter level, while the net outflow of U.S. and foreign private long-term capital in the second quarter may not have been appreciably different from that recorded in the first quarter. (Information on these last transactions, however, is still very incomplete.)

The trade deficit in the second quarter (as described below) was at an annual rate of $1.2 billion compared with $3.8 billion in the first quarter. Debt repayments and large advance deposits against future deliveries of military and other goods (including over $300 million of uranium to Japan) were responsible for the lower level of Government grants and credits in the second quarter. Government net disbursements are expected to pick up in the second half of the year as these special receipts decrease.

Among service transactions, the outstanding development was the maintenance of net income receipts at the very strong first quarter level as a further rise in income returns on U.S. investments abroad just about offset an equally large rise in income payments, largely to foreign official institutions, as interest rates in the United States rose. Income received from direct investments is estimated to be holding at an annual rate of over $10 billion.

Although the net outflow balance on private long-term capital transactions is estimated to have shown little increase from the first to the second quarter, there was a very sharp decline in the outflow of U.S. private capital (principally for U.S. direct investments abroad which were exceptionally large in the first quarter) which was more than offset by an even sharper fall in the inflow of foreign capital into the United States. The net inflow on security transactions in the second quarter was less than $1/2 billion; the inflow in the first quarter had been over $1-3/4 billion. Net foreign purchases of U.S. stocks in the second quarter were about $125 million compared with over $1-1/4 billion in the preceding quarter. However, foreigners resumed purchasing U.S. stocks in June following net selloffs in May. Brokers indicated strong foreign purchases in July, reportedly reflecting greater confidence in the U.S. dollar.

Sales of offshore U.S. corporate bonds to foreigners were also down in the second quarter, with sales at a low level in May and June. However, sales of these bonds were reported to have picked up in July and August, paralleling the development in sales of U.S. equities. There were U.S. net purchases of foreign securities of about $135 million in April-June compared with net sales of $50 million in the first quarter. Flotations of Canadian provincial issues and Israeli bonds were up somewhat in the second quarter while net U.S. sales of foreign stocks were not as pronounced as in the early part of the year.

U.S. bank-reported claims on foreigners -- both long- and short-term -- rose again in the second quarter, continuing to reflect large export credits, but the increase was considerably below the exceptionally large increase in the first quarter when the dollar was under attack. Preliminary weekly data indicate some decline in banking claims in July.

There was also a sizable increase in U.S. banks' liabilities to foreign commercial banks, including foreign branches, in the second quarter -- about $2 billion (not seasonally adjusted) -- reversing a reduction of about the same amount in the first quarter. A sharp reduction in such liabilities, mainly by U.S. agencies of foreign banks (particularly Canadian), occurred late in July, probably reflecting a temporary bulge in Euro-dollar rates.

U.S. Balance of Payments: 1971-73
(billions of dollars, seasonally adjusted annual rates)

	1971	1972	1973 Q-I	1973 Q-II e/
Balance on goods & services	+.8	-4.6	--	+2.8
Merchandise trade, net	-2.7	-6.9	-3.8	-1.2*
Services, net	+3.5	+2.3	+3.9	+4.0
Investment income, net	(+8.1)	(+8.0)	(+9.2)	(+9.2)
Military, net	(-2.9)	(-3.6)	(-3.3)	(-3.2)
Other services, net	(-1.7)	(-2.2)	(-2.0)	(-2.0)
Remittances and pensions, net	-1.6	-1.6	-1.6	-1.7
U.S. Govt. grants and capital, net	-4.4	-3.5	-2.8	-1.6
Long-term private capital, net	-4.4	-.2	-1.0	-1.4
U.S. capital, net	(-6.7)	(-5.5)	(-10.0)	(-4.9)
Foreign capital, net	(+2.3)	(+5.3)	(+9.0)	(+3.5)
Balance on current account and long-term capital (Basic Balance)	-9.6	-9.8	-5.4	-1.9
Short-term private capital, net	-10.1	+1.9	-22.4	+2.4
U.S. capital, net	(-3.4)	(-3.0)	(-14.5)	(-2.2)
Foreign capital, net	(-6.7) 1	(+4.9)	(-8.0)	(+4.7)
Errors and omissions, net	-10.8	-3.1	-14.4	+1.4
Official Settlements Balance (excluding SDR allocations)	-30.5	-11.1	-42.2	+1.9*

e/ Estimated, except that figures marked with * are firm.

U.S. foreign trade. For June, the U.S. trade balance was in deficit by $1.8 billion at a seasonally adjusted annual rate (balance of payments basis), down from the May deficit of $2.7 billion. This improvement in the trade balance resulted from a strong rise in the value of exports, while the value of imports showed very little increase. The June increase in the value of both exports and imports can be attributed almost entirely to higher prices, with volumes virtually unchanged from their May levels.

For the second quarter, the U.S. trade deficit was $1.2 billion at an annual rate, a marked decline from the deficits of $3.8 billion in the first quarter of 1973 and $7.0 billion in the fourth quarter of 1972. During the second quarter the value of exports rose by nearly 9 percent, while the value of imports increased by only 4-1/2 percent.

Of the increase in the value of exports from the first to the second quarter, about one-quarter reflected a rise in the value of agricultural commodities. Higher export unit values for agricultural goods, a result of world shortages and increased 'purchasing power" in foreign countries resulting from the depreciation of the dollar, accounted for all of the increase in the value of agricultural exports. For non-agricultural exports, higher prices accounted for only a third of the increase in the value of shipments. There were rises in the volumes of virtually all non-agricultural commodity categories, because of strong economic activity abroad combined with the continuing effects of the exchange rate realignments. Exports of industrial supplies have been particularly buoyant because of supply shortages that have accompanied the strong rise in output abroad.

Percent Changes from Preceding Periods

	Current Dollars			Constant (1967) Dollars		
	1972 / 1971	Q-I 1973 / Q-IV 1972	Q-II 1973 / Q-I 1973	1972 / 1971	Q-I 1973 / Q-IV 1972	Q-II 1973 / Q-I 1973
EXPORTS						
Total	+14.0	+15.9	+9.0	+10.7	+11.6	+4.1
Agricultural	+21.6	+42.1	+8.7	+13.7	+25.3	-2.9
Nonagricultural	+12.3	+9.3	+9.1	+10.0	+7.8	+6.0
Indust. materials	+8.9	+11.6	+19.7	+6.0	+6.9	+15.7
Other nonagric.	+13.9	+8.2	+4.2	+12.0	+8.2	+1.3
IMPORTS						
Total	+22.5	+8.9	+4.3	+13.9	+4.8	-3.8
Fuels	+28.2	+21.6	+21.0	+23.0	+16.5	+15.4
Nonfuels	+22.0	+7.5	+2.6	+12.8	+3.6	-5.8

The total value of imports rose in the second quarter only because an increase in import prices of nearly 8-1/2 percent more than offset a 4 percent decline in the volume of total imports. The volumes of imports of food, industrial supplies (excluding fuels), automotive equipment, and consumer goods (both nondurables and durables) all declined in the second quarter. On the other hand, fuel imports rose sharply and capital goods showed a marginal increase. The widespread decline across major commodity categories of imports suggests that the effects of the exchange rate realignments have outweighed the stimulus to imports that would normally have accompanied the continued growth in domestic economic activity. This is particularly confirmed by the movement in import volumes of finished goods, because the declines in food and industrial material imports are likely to contain an element of supply shortages abroad.

Since mid-1972, U.S. export volumes have risen more rapidly than overall U.S. output of goods, raising the ratio of exports to goods output, as indicated in the table below. Since exports historically have tended to rise more rapidly than goods output, some increase in the ratio of exports to aggregate output could be expected. However, the increase in the first half of 1973 has been particularly dramatic, as export growth accounted for nearly a third of the increase in total domestic goods output.

Exports, Imports and GNP Goods Output
(billions of 1967 dollars)

	GNP Goods Output	Exports	Imports	Net Exports	Ratios to Output Exp.	Imp.	Net
Annual							
1969	428.6	34.7	34.4	+0.3	8.1	8.0	+0.1
1970	423.6	37.9	35.7	+2.2	8.9	8.4	+0.5
1971	435.3	37.5	38.7	-1.2	8.6	8.9	-0.3
1972	465.9	41.5	44.2	-2.7	8.9	9.5	-0.6
Semi Annual							
1972 - 1H	454.8	39.7	43.4	-3.7	8.7	9.5	-0.8
- 2H	476.4	42.9	44.9	-2.0	9.0	9.4	-0.4
1973 - 1H	498.1	49.8	47.2	+2.6	10.0	9.5	+0.5
Changes							
1H 1972 - 2H 1972	21.6	3.2	1.5	+1.7			
2H 1972 - 1H 1973	21.7	6.9	2.3	+4.6			

The combination of this strong increase in exports with the levelling off in imports placed considerable pressure on U.S. productive capacity at the same time that internal domestic demands have been rising sharply. For some particular sectors (such as lumber and farm machinery), the pressures on domestic supply capabilities caused by export growth was probably even more severe than is suggested by the relationship of total exports to aggregate goods output.

For the remainder of the year, the value of exports is expected to rise more rapidly than the value of imports, perhaps yielding a trade surplus by the fourth quarter. High values of agricultural exports, reflecting continuing large shipments and high prices of farm products, are a major element in the improved trade outlook. It is expected that the value of agricultural exports will be over $16 billion in 1973, (as compared with $9-1/2 billion in 1972), even if export controls are reintroduced since the projections assume little or no increase in the quantity of major agricultural exports but only reflect higher prices.

The increase in the volume of non-agricultural exports is expected to continue strong in the coming months. For the year 1973, it is anticipated that the volume of non-agricultural exports may be 20 percent greater than in 1972, a much faster growth than the 13 percent rise being projected for total OECD exports, indicating improvement in our share of world exports in such goods.

The combination of expected strong increases in the volume of nonagricultural exports with projected further declines in the volume of imports (except for fuels) will provide a stimulus to domestic production in late 1973 and 1974 as internal demands slacken, but with possible adverse effects on prices.

The balance of payments positions of major foreign industrial countries. One of the most striking features of the world payments situation over the past year has been the sharp rise in the volume and prices of internationally traded goods. Cyclical conditions in almost all industrial countries have been so strong as to lead to sharp increases in the volume of trade of manufactured goods and industrial raw materials. Prices of food and raw materials have skyrocketed, and prices of manufactured goods have risen as well.

These unusual developments, coupled with at times sizable and speculative flows of capital, affecting nominally long-term flows as well as those classified as short-term, make it difficult to distinguish between temporary changes and basic adjustment in the world payments situation.

The present exchange rate regime, itself, also complicates this task. To the extent that exchange rates are allowed to float without intervention, underlying changes in payments imbalances are reflected in movements in relative exchange rates, not in official reserve changes. Adjustments, therefore, do not show up completely in balance of payments statistics.

Net changes in official reserves and in average exchange rates for the major countries are shown in the table below. It is clear that Germany has remained, in any sense, a major surplus country, having

CHANGES IN NET OFFICIAL RESERVES AND AVERAGE EXCHANGE RATES
(Millions of dollars or per cent)

	'72-1st half		'72-2nd half		'73-1st half		Total 72-73	
	Res.	Exch. Rate	Res.	Exch. Rate	Res.	Exch. Rate	Res.	Exch. Rate
Germany	+4091	+0.4	+800	+0.6	+7337	+17.7	+12,228	+18.7
Japan	+297	+3.4	+2362	+2.2	-3221	+3.3	-562	+8.9
Belgium	+332	+0.7	+31	+1.2	+745	+8.2	+1,108	+10.1
France	+958	+4.9	+505	0	+363	+10.3	+1,826	+15.2
Italy	-475	0	-363	+1.5	-824	-11.9	-1,662	-10.4
Netherlands	+490	-0.3	-354	+0.4	-64	+9.4	+780	+9.5
U.K.	-2296	-1.3	-405	-8.0	+1367	-0.7	-1334	-10.0
Canada	+310	-0.9	-140	-0.3	-185	-10.7	-15	-11.9
U.S.	-3957	-3.3	-7093	+1.7	-9199	-11.3	-20,249	-12.9

1/ The average exchange rate changes are based on average offer rates in New York, weighted by the shares of each country in the total 1972 trade of the G-10 countries plus Switzerland. Changes are expressed as a percentage of the par values in effect on May 1, 1970.

gained over $12 billion over the past year and a half, while its exchange rate moved up almost 20 per cent. In contrast, Japan, after continuing to gain reserves in 1972 following the Smithsonian realignment, has actually lost reserves this year, while the yen has appreciated relatively little.[1/]

In Europe, the two countries (Italy and the United Kingdom) that have remained outside the snake for fear of excessive downward pressure on their exchange rates have both in fact lost reserves since 1971 and have seen their exchange rates depreciate significantly. But the two countries are in quite different situations. If it were not for strikes earlier this year, Italy would have had a fairly strong current account position. The current account position of the United Kingdom, on the other hand, has been deteriorating sharply. In both countries, there has been foreign borrowing by the public sector, largely to boost reserves.

The other major European countries have exhibited surprisingly large reserve gains, coupled with considerable exchange rate appreciation. Indeed, there is not yet any evidence -- except perhaps in the Netherlands -- to suggest that the hoped-for adjustment in the surpluses of these countries is taking place.

There has been some deterioration in Canada's balance of payments position, taking the form primarily of an exchange rate depreciation;

1/ Although this reserve loss may be overstated, because of intergovernment transfers, there would probably have been some tendency towards a reserve loss in any case.

there has been virtually no net change in Canada's reserves in the period since 1971, although in the latter part of that period there have been net reserve losses.

The crucial question remains, for all of these countries: what part of the changes in the overall position is temporary, and what part represents fundamental adjustment to the new patterns of exchange rates that have been evolving?

An answer to that question requires a more detailed examination of balance of payments developments in each country. Some discussion of these developments in the countries upon which most attention has been focused (Japan, Germany, the United Kingdom, Italy, and Canada) is presented below.1/

Japan's basic balance (current account plus long-term capital) decreased from a surplus of $0.7 billion in the first half of 1972 to a deficit of $4.2 billion in the first half of this year. There was also a deficit in July. In part this reflected a large and increasing net outflow of long-term capital; but more significantly, perhaps, there was also a sharp drop in the trade surplus.

From mid-1971 to early this year, the trade surplus fluctuated around an annual rate of about $9 billion, but the surplus fell to an annual rate of only $4 billion (seasonally adjusted) in the period March to June. Some part of the decline in the surplus reflects a recent sharp

1/ Data in text are presented in local currencies, except in Japan (where figures are published in dollars) and in Italy.

increase in the prices of imported agricultural and raw materials.

Basically, however, the decline in the trade surplus results from changes in the volume of trade. Compared to an average annual rate of increase of 18 per cent from 1963-1971, the volume of exports rose only 7 per cent in 1972 and was 6-1/2 per cent higher in the first four months of 1973 than a year earlier. Export restraints imposed by the Japanese Government on some 20 leading export items in October, 1972, may provide part of the explanation for the latest slowdown of export growth; but with the average permissible rate of increase being a generous 29 per cent, it is not clear that these restraints have been significant. Rather, it is reasonable to view a substantial part of the slowdown as resulting from a loss of competitiveness following the yen revaluations.

There is less evidence of adjustment taking place on the import side. The volume of imports rose rapidly in recent months; but the rate of increase was in line with that occurring in previous upswings, suggesting that Japan's recent import performance is largely cyclical.

The deficit for invisibles remained unchanged at about $1.5 billion in both the first half of 1972 and the first half of this year, as increasing receipts from income on investments -- associated with rising interest rates -- offset higher payments for travel and shipping. With the sharp drop in the trade surplus, the current account surplus was reduced from $2.2 billion in the first half of 1972 to only $200 million in the first half of 1973.

Net long-term capital outflows increased further during the first half of this year to \$4.4 billion, from \$1.5 and \$3.0 billion, respectively, in the first and second halves of 1972. These net outflows primarily reflected an increase in Japanese loans, investments in securities, and direct investment, which, to some extent, have been officially encouraged.

Officially reported international reserves fell from \$18,365 million at the end of 1972 to \$15,158 million at the end of July, but this fall may be overstated because of certain government transactions affecting reserves.

The major development in the German balance of payments picture this year has been the unexpectedly huge surplus on the merchandise trade account -- more than offsetting the increasing invisibles deficit. The current account surplus for the first half of 1973 was DM2.4 billion (or just over \$1 billion).

The trade surplus in the first half of this year was DM12.8 billion, compared to DM8.4 billion in the first half of 1972, with exports rising 19 per cent and imports rising only 14-1/2 per cent. The improvement in Germany's terms of trade provides part of the explanation for this; the terms of trade would have improved more if German export unit values, expressed in DM, had not fallen relative to domestic prices generally, as some evidence suggests. And speculative buying of

German goods, in expectation of further DM revaluations, may have boosted German export sales and orders late last year and early this year. But it must also be recognized that the effective revaluation of the DM in many of Germany's European export markets has been quite small, at least until the spring of this year. If, in addition, some German industries can offer prompter delivery, as spokesmen in the equipment industry have suggested, then it is not surprising that the impact of the change in relative prices has not yet shown up in export deliveries, or even in export orders. The relatively slow growth of imports is more difficult to understand, unless Germany's cyclical position is not as strong as is generally believed.

The deficit on services and transfers (including official transfers) has been expanding very rapidly following the DM revaluation in 1969, and the trend is apparently continuing this year -- though the increment to the deficit may be somewhat smaller this year than last. The enormous rise in the services and transfers deficit is largely attributable to extremely rapid increases in German travel expenditures abroad and in remittances of foreign workers. From 1968 to 1972 the combined services and transfers deficit climbed DM11.5 billion to DM19.0; out of that total increase, the net travel account deficit rose DM5.5 billion, while foreign workers remittances increased DM4.5 billion.

There was a net outflow of long-term capital in January, but there have been net inflows ever since in spite of capital controls. In the first six months of this year, there was a net inflow of DM1.9 billion, of which over DM700 million took place in June. The basic balance for the first half of 1973 was in surplus by over DM4.3 billion (or over $1.8 billion at current exchange rates).

The basic surplus of DM4.3 billion is probably somewhat overstated, in the sense that some part of those flows classified as long-term capital were surely speculative. Recorded short-term capital flows showed a net outflow of almost DM1 billion in the first half of this year, as the heavy inflows of February and March were more than offset in the other months. But positive errors and omissions -- also reflecting capital flows -- totalled DM19.2 billion in the same period.

There has clearly been a deterioration in the United Kingdom's current account position. A large part of this deterioration was expected, given the strong growth of the U.K. economy and the sensitivity of imports to growth in that country. The remainder of the deterioration reflects a sharp worsening of the terms of trade.

The U.K. trade deficit increased from an annual rate of £350 million in the first half of 1972 to over £1-1/2 billion in the first half of 1973. The extent of the deterioration in the U.K.'s terms of trade is striking. From the first half of 1972 to the first half of 1973, import unit values rose 22 per cent while export unit values rose only 8 per cent. In volume terms, exports remained virtually steady in the second half of last year, but rose 10-1/2 per cent in the first half of this year; imports, on the other hand, rose 4.6 and 8.3 per cent, respectively, in the two periods.

The fact that exports, in volume terms, have recently been growing faster than imports, in spite of the economic boom in the United Kingdom, and that export orders are high, suggests that there has been some impact from the downward sterling float since mid-1972.

The invisible account surplus has remained fairly steady at an annual rate of about £700 million, although net U.K. contributions to the E.C. budget reduced the surplus slightly. The current account, therefore, showed a seasonally adjusted deficit of over £400 million, or about $1 billion, in the first half of this year, compared to a very small surplus for 1972 as a whole.

The current account deficit was partially offset in the first quarter by net inflows on investment and other capital accounts amounting to nearly £150 million. Overseas investment in the United Kingdom, including investment connected with North Sea oil and gas, was particularly strong. Foreign borrowing by the U.K. public sector, amounting to $847 million since February of this year, has accounted for a large part of the total increase in official reserves in the first half.

Reserves fell by $385 million in July, despite further public sector borrowing of $300 million, as the Bank of England sought to avoid a further devaluation of sterling.

Italy had an overall balance of payments deficit of $1,385 million in the first six months of 1973. The figure would have been $2,435 million if an adjustment were made to remove $1,050 of Euro-currency borrowing by state agencies that in part was incurred to cushion the official reserves. This dwarfs the adjusted deficit of $176 million for the first half of 1972, and exceeds the adjusted deficit of $1,774 million for the second half of 1972.

An enlargement of the trade deficit accounts for about three-quarters of the rise in the adjusted overall balance of payments deficit. The trade deficit rose from $272 million in January-May 1972 to $2,066 million in January-May 1973.

Imports in the first five months of this year were 25 per cent greater than in the same period last year (as valued in lire), partly in reflection of increased economic activity (in particular, a build-up of depleted inventories of raw materials). In addition, there have been some speculative purchases of imports in anticipation of a further depreciation of the lira and a further rise in world market prices of primary commodities.

While imports have soared, exports were seriously damaged by strikes in the engineering industries in the first four months of the year. In January-May the lira value of exports was only 2 per cent above a year earlier.

In addition to the deterioration in the trade figures, in the first quarter of 1973 foreign exchange receipts from tourism and workers' remittances continued to run below their year-earlier levels. This has occurred because the inconvertibility since June 1972 of illegally-exported Italian banknotes has created a discount market for banknotes outside the country.

In Canada, the current account balance for the first half of 1973 showed a deficit at an annual rate of about C$650 million, up slightly from almost C$600 million in 1972. The increase of almost C$1/2 billion in the surplus on merchandise trade was offset by a higher deficit on invisibles transactions.

Net long-term capital inflows in the first half were approximately C$1/2 billion, about half the rate observed in 1972. There was a large fall in sales of new Canadian issues abroad, and a shift in transactions in outstanding Canadian equities to a net outflow. Net short-term flows were in balance during the first half of this year, in contrast to substantial net outflows in the previous year.