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Confidential (FR) Class II FOMC

Part 2

September 10, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

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Board of Governors
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DOMESTIC NONFINANCIAL SCENE

September 10, 1975

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	Aug.	9-5-75	93.1	3.0	.9	2.1
Unemployment rate (per cent)	Aug.	9-5-75	8.4	8.4 1/	9.2 1/	5.4 1/
Insured unemployment rate (%)	Aug.	9-5-75	5.9	6.2 1/	7.0 1/	3.3 1/
Nonfarm employment, payroll (mil.)	Aug.	9-5-75	77.0	8.3	3.2	-2.1
Manufacturing	Aug.	9-5-75	18.3	14.0	3.2	-9.2
Nonmanufacturing	Aug.	9-5-75	58.8	6.5	3.2	.4
Private nonfarm:						
Average weekly hours (hours)	Aug.	9-5-75	36.3	36.1 1/	36.0 1/	36.7 1/
Hourly earnings ($)	Aug.	9-5-75	4.56	10.6	8.1	6.8
Manufacturing:						
Average weekly hours (hours)	Aug.	9-5-75	39.8	39.5 1/	39.0 1/	40.2 1/
Unit labor cost (1967=100)	July	8-29-75	151.2	11.2	9.2	12.8
Consumer prices (1967=100)	July	8-21-75	162.4	13.8	9.2	9.7
Food	July	8-21-75	177.4	20.6	15.2	11.3
Commodities except food	July	8-21-75	149.9	11.3	6.5	9.0
Services 2/	July	8-21-75	166.6	6.5	6.1	9.2
Wholesale prices (1967=100)	Aug.	9-5-75	176.1	9.3	7.5	5.6
Industrial commodities	Aug.	9-5-75	171.8	7.6	5.8	6.6
Farm products & food & feeds	Aug.	9-5-75	186.4	-8.9	9.4	3.0
Personal income ($ billion) 3/	July	8-20-75	1238.4	-5.5	11.7	6.8
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	July	9-2-75	41.5	4.3	6.3	-12.6
Capital goods industries	July	9-2-75	12.4	2.9	3.8	-12.6
Nondefense	July	9-2-75	10.6	4.2	2.5	-17.5
Defense	July	9-2-75	1.8	-4.0	11.8	33.0
Inventories to sales ratio:						
Manufacturing and trade, total	June	9-5-75	1.60	1.63 1/	1.69 1/	1.49 1/
Manufacturing	July	9-2-75	1.78	1.83 1/	1.87 1/	1.63 1/
Trade	June	9-5-75	1.37	1.39 1/	1.45 1/	1.35 1/
Ratio: Mfrs' durable goods inventories to unfilled orders	July	9-2-75	.838	.846 1/	.844 1/	.689 1/
Retail sales, total ($ bil.)	July	9-9-75	49.9	2.4	6.9	7.7
GAF	July	9-9-75	12.3	-.4	3.3	3.5
Auto sales, total (mil. units) 3/	Aug.	9-8-75	9.2	.4	20.1	-13.8
Domestic models	Aug.	9-8-75	7.5	-.1	21.5	-17.6
Foreign models	Aug.	9-8-75	1.7	2.7	14.4	8.4
Plant & equipment expen. ($ bil.) 4/						
All industries	1975	9-4-75	113.51	-	-	1.0
Manufacturing	1975	9-4-75	48.44	-	-	5.3
Capital Appropriations, Mfg.	Q2	9-2-75	9,422	-17.7	-42.5	-37.1
Housing starts, private (thous.) 3/	July	8-18-75	1,238	13.8	26.3	-5.8
Leading indicators (1967=100)	July	8-27-75	100.7	1.7	6.7	-10.8

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned-Commerce Aug. Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recovery in economic activity appears to be gathering momentum; gains in industrial production and employment both strengthened in August. However, consumer spending apparently slackened in August as auto sales held steady and nonautomotive retail sales appear to have shown their first decline of the year. Although the latest data for July still showed a very sizable inventory runoff, a significant reduction in the pace of liquidation appears to be underway--judging by recent increases in industrial production. A firming up of business demands is also indicated by a further rise during July in new orders for durable goods.

On the inflation front, foods and fuels boosted consumer prices sharply in July, and wholesale prices of industrial commodities advanced somewhat more rapidly in August--mainly reflecting boosts in fuel prices.

Industrial production in August is tentatively estimated to have increased by 1 per cent or more--about twice the pace of the advance recorded in the preceding two months. With new data coming in stronger than before, some upward revisions for earlier months are also anticipated. For August there are indications of widespread advances among final products and materials. Output of consumer goods excluding autos probably rose further, whereas auto assemblies held about steady at a 7.6 million unit annual rate after allowance for the model changeover period. Production of business equipment may have stabilized or risen somewhat in August, after having declined steadily for 10 months.

Among industrial materials, output of raw steel rose slightly and production of the textiles, paper and chemical group increased considerably further, so that capacity utilization of major materials producers continued to advance in August. However, coal production was curtailed during the month because of widespread strikes.

New orders received by manufacturers of durable goods rose by 4.3 per cent in July--the sharpest monthly advance since the strong surge in April. The increase in orders was fairly widespread with bookings for nondefense capital goods rising at about the same pace as the total over the month. Since the low in March, total orders for durable goods have risen by over 15 per cent and nondefense capital goods orders have increased by close to 11 per cent. Unfilled orders of total durable goods edged up slightly in July--the first increase in such backlogs since last fall.

Contracts for commercial and industrial buildings (measured in square footage) recorded their second successive monthly increase in July. Total footage contracted rose 4 per cent but remains 31 per cent below the year-earlier level. The July strength originated solely in the commercial category.

The Commerce Department's quarterly plant and equipment survey, conducted in late July and August, showed only a small further downward revision in business spending plans for the second half of 1975. Due primarily to weaker plans outside of the manufacturing sector, industry now expects second half capital outlays to be essentially the same as those recorded in the first half of the year. Actual second quarter spending was reported to be weaker than previously indicated.

Manufacturers' capital appropriations, as reported by the Conference Board, fell by 17.7 per cent in the second quarter--the third successive quarterly drop in this series. A large part of these appropriations is typically spent after about a year. Although appropriations have declined over 40 per cent from their peak, the backlog of unspent appropriations is capable of sustaining the current rate of capital expenditures for over a year.

Liquidation of business inventories will probably slow significantly over the third quarter as a whole. However, the book value of manufacturers' inventories declined at an $11.4 billion annual rate in July--somewhat below the $12.5 billion rate of decline in the second quarter but slightly greater than the June rate. As was true in June, the July decline was still concentrated mainly in durables--especially fabricated metals and machinery. Nondurable goods inventories declined slightly less than the June rate with chemicals and paper accounting for all of the July drop. Wholesale trade inventories declined in July, after having risen during the preceding month.

While strength was evident in the business sector during August, the pace of consumer spending tapered off after sharp advances in earlier months. Retail sales excluding autos and nonconsumer items are estimated from weekly data to have declined about three-fourths of a percentage point from the brisk July pace. A good portion of the weakness originated in the food group, which had reported unusually large sales gains in the previous three months, and these sales are subject to volatile movements. The GAF grouping reported sales about 0.7 per cent greater than in July, although the furniture and appliance component showed a decline. Compared with the second quarter level, August retail sales net of autos and nonconsumer items were up 1.5 per cent.

Auto sales in August held at about the rate of the previous month, following three successive months of increase. Sales of new domestic-type models were at a seasonally adjusted annual rate of 7.5 million units. While this is close to a third above the April low, it is almost 20 per cent below the year-earlier rate when there was a good deal of buying to avoid the steep price hikes scheduled for the 1975 models. Sales of foreign models remained at a 1.7 million unit rate in August.

Private housing starts resumed their upward movement in July, advancing to a seasonally adjusted annual rate of 1.24 million units--14 per cent above the June rate. While this increase was broadly based by type of dwelling and by region, it was dominated by a nearly 50 per cent increase in starts of multi-family units. However, at a rate of 311,000 units, multi-family starts are still exceptionally low by earlier standards. The rate of single family starts in July rose to 927,000 units--over a third above the low last December. With residential building permits moving upward for the fourth consecutive month and with mortgage commitments improved further, indications are that starts should be sustained at least around the July level over the third quarter as a whole.

In the labor market, the unemployment rate remained unchanged in August at 8.4 per cent, seasonally adjusted, as increases in the civilian labor force just about offset further employment gains. The jobless rate for adult men dropped 0.4 per cent but there were increases in black and teenage unemployment.

Nonfarm payroll employment rose 530,000 (seasonally adjusted) in August, more than twice the size of the upward-revised July increase, and the largest monthly rise since December 1959. Increases in employment occurred in 72 per cent of the surveyed industries as compared to 55 per cent in July. Mining was the only major industry division where gains did not occur. Manufacturing employment rose 210,000 in August with gains widespread among durable and nondurable industries; for durable goods producers the increase was the first since last September. The factory work week rose 0.3 hours to 39.8 hours--the second successive monthly rise in this series.

The average hourly earnings index, which adjusts for inter-industry shifts in employment and manufacturing overtime, rose at an annual rate of 9.9 per cent in August--more than twice that recorded last month. Over the past several months, rates of increase in this index have generally averaged below the August increase.

Price trends evident last month continued to be dominated by foods and fuels. Wholesale prices increased by 0.8 per cent, seasonally adjusted (not at an annual rate), in August, but the magnitude of this increase could have been biased upward by the peculiarities of the

BLS seasonal adjustment procedure. However, price increases did accelerate for industrial commodities, due in large part to continued sharp advances in the prices of fuels and related products and power. The August increases in part reflect July's boost in wholesale gasoline prices--which is recorded in the index with a one month lag. Price advances also picked up for metals and chemicals, but price gains for producers' finished goods continued to be moderate. After the surge in July, prices for farm and food products dropped 0.7 per cent, seasonally adjusted, in August as declines were recorded in the prices of fresh fruits, vegetables, and cattle.

In July, the consumer price index rose 1.2 per cent, seasonally adjusted (not at an annual rate), boosted in large part by advances in food and fuel prices. Meat and fresh vegetable prices climbed further in that month, but prices of most processed food groups continued to decline. The large advance in July for prices of non-food commodities reflected increased fuel costs and a sharp further rise in used car prices.

The energy situation poses a source of uncertainty for price developments and hence clouds the outlook for general economic activity. The current staff projection assumes that the abrupt decontrol of oil will be sustained and that the import fee on foreign crude oil and refined products will be removed. One alternative outcome is gradual decontrol along the lines of the Administration's 39-month plan proposed in July. Under this plan old oil is gradually decontrolled, but an initial ceiling of $11.50 is imposed on the price of new oil; as a result, the inflationary impact of the program would be constrained, especially at the outset. This program also included a windfall profits tax, the proceeds of which would be rebated to households. Congressional dissatisfaction with this Administration compromise suggests the possibility of still another outcome and that is an override of the President's veto of the six-month extension of controls. In all of these cases, the fate of the import fee is uncertain. If controls remain in effect the President, of course, would want to retain the fee, and the Administration is challenging a recent court ruling which held that such a fee was, in fact, illegal.

The current staff forecast also assumes an OPEC price increase of about ten per cent ($1.00). However, with no official announcement having yet been made, a wide range of increases is still possible.

The staff has lowered its estimate of the FY'76 unified budget deficit to $67 billion, about $4.5 billion below the August Greenbook forecast. This change reflects a $3.7 billion upward adjustment in projected receipts (to $300 billion) and a $.6 billion downward adjustment in estimated outlays (to $367 billion). The receipts revision was caused primarily by a larger forecast of corporate profits. The projected high-employment budget shows a decline in fiscal stimulus from a deficit of about $14 billion in the first half of CY '75 to one of $8 billion in the second half of CY '75, followed by a deficit of $4.5 billion in the first half of CY '76.

Manufacturers' New Orders
Durable Goods Industries

(Per cent change from prior month)

	Total Durable Goods	Nondefense Capital Goods
1974: July	.5	6.6
Aug.	3.7	-7.8
Sept.	-6.0	.2
Oct.	-3.9	-3.8
Nov.	-3.8	-6.7
Dec.	-10.8	-1.5
1975: Jan.	-5.0	-3.7
Feb.	3.3	-1.1
Mar.	-3.7	-4.5
Apr.	8.4	8.3
May	1.1	-.1
June	.8	-1.6
July (p)	4.3	4.2

BUSINESS INVENTORIES

(Change at annual rates in seasonally adjusted book values, $ billions)

	1974		1975			
	QIII	QIV	QI	QII(r)	June(r)	July
Manufacturing and trade	59.2	52.9	-11.4	-18.1	-5.1	na
Manufacturing	37.7	29.7	3.2	-12.5	-10.7	-11.4
Durable	23.3	19.1	7.6	-4.3	-7.0	-8.2
Nondurable	14.5	10.6	-4.5	-8.2	-3.7	-3.2
Trade	21.4	23.2	-14.5	-5.6	5.6	na
Wholesale	8.6	8.3	-4.1	-3.6	3.5	-2.7
Retail	12.8	14.9	-10.4	-2.9	2.1	na
Auto	4.0	11.8	-8.5	-1.8	-3.8	na

INVENTORY RATIOS

	1974		1975	
	June(r)	July(r)	June(r)	July
Inventory to Sales				
Manufacturing and trade	1.49	1.48	1.60	na
Manufacturing	1.64	1.63	1.83	1.78
Durable	2.03	2.04	2.44	2.38
Nondurable	1.20	1.19	1.22	1.18
Trade	1.35	1.32	1.37	na
Wholesale	1.14	1.12	1.23	na
Retail	1.52	1.49	1.47	na
Inventories to Unfilled Orders				
Durable manufacturing	.693	.689	.846	.838

r - revised.

RETAIL SALES

Per cent change from previous period*

	1974-1975	1975			
	IV-I	I-II	II-Aug.**	June	July
Total	2.7	3.5	3.6	1.4	2.4
Durable	5.3	4.5	6.9	3.5	2.9
Automobile	7.2	5.6	9.9	5.3	4.4
Furniture & appliances	- .7	5.1	.8	1.8	- .1
Nondurable	1.6	3.1	2.2	.4	2.2
Apparel	5.0	3.3	3.8	.3	1.5
Food	2.9	1.2	1.4	1.4	2.9
Gen'l. Mdse.	.3	5.5	1.3	.2	-1.0
Gasoline stations	1.2	2.7	4.3	1.4	3.2
GAF	1.0	5.0	1.6	.5	- .4
Total less autos & mainly nonconsumer items	1.6	3.1	2.3	.6	2.0
Real***	.9	2.2	n.a.	.6	.9

*August estimate will be available in Greenbook Supplement.
**The August estimate is based on weekly data.
***Deflated by the all commodities CPI, seasonally adjusted.

AUTO SALES
(Seasonally adjusted annual rates, in millions of units)

	TOTAL	Domestic TOTAL	Domestic LARGE	Domestic SMALL	IMPORTS
1974 QI	9.0	7.5	4.8	2.7	1.6
QII	9.2	7.9	5.4	2.5	1.3
QIII	10.1	8.5	5.5	3.0	1.6
QIV	7.4	6.1	3.9	2.2	1.3
Oct.	8.0	6.4	3.9	2.5	1.6
Nov.	7.0	5.7	3.7	2.0	1.3
Dec.	7.2	6.1	4.0	2.1	1.1
1975 QI	8.3	6.6	3.6	3.0	1.7
QII	7.9	6.3	4.1	2.2	1.6
Jan.	8.1	6.6	3.7	2.9	1.5
Feb.	9.2	7.2	3.6	3.6	2.0
Mar.	7.7	6.0	3.6	2.4	1.6
Apr.	7.3	5.7	3.8	1.9	1.6
May	7.7	6.2	4.1	2.1	1.5
June	8.7	7.1	4.5	2.6	1.6
July	9.2	7.6	4.6	3.0	1.7
Aug.	9.2	7.5	n.a.	n.a.	1.7e

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

	1974	1975				Per cent change in July from:	
	QIV	QI	QII	June(r)	July(p)	Month ago	Year ago
Permits	.81	.69	.90	.95	1.01	+ 6	- 3
Starts	1.00	1.00	1.07	1.09	1.24	+14	- 6
1-family	.76	.75	.84	.88	.93	+ 6	+ 1
2- or more-family	.24	.25	.22	.21	.31	+49	-21
Under construction 1/	1.23	1.11	1.05	1.05	n.a.	- 2 2/	-29 2/
Completions	1.63	1.39	1.19	1.11	n.a.	-12 2/	-39 2/
MEMO: Mobile home shipments	.23	.20	.21	.21	.23	+7 2/	-41 2/

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on June.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974	1975		
	Aug.	Feb.	July	Aug.
Total	5.4	8.2	8.4	8.4
Men 20 years and over	3.8	6.2	7.0	6.6
Women 20 years and over	5.3	8.1	7.9	7.7
Teenagers	15.3	19.9	19.1	21.1
Household heads	3.2	5.4	6.0	5.5
White	4.9	7.4	7.9	7.6
Negro and other races	9.4	13.5	13.0	14.0
White collar workers	3.2	4.5	4.8	4.6
Blue collar workers	6.6	10.9	12.1	11.5
State insured*	3.3	5.9	6.2	5.9

* Per cent of covered workers

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in Thousands)

	Employment	Average Monthly Change		
	Aug. 1975	Aug. 1974- Aug. 1975	Feb. 1975- Aug. 1975	July 1975 Aug. 1975
Total nonfarm	77,035	-136	+55	+528
Goods-producing	22,413	-195	-30	+256
Construction	3,435	-44	-27	+45
Manufacturing	18,264	-154	-6	+211
Durable	10,540	-113	-30	+131
Nondurable	7,724	-41	+25	+80
Service-producing	54,622	+60	+85	+272
Trade	16,988	-13	+26	+69
Services	13,929	+30	+26	+101
Government	15,066	+62	+47	+84
State & local government	12,304	+60	+42	+72

HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change annual rate)

	Aug. 1974- Aug. 1975	Feb. 1975- Aug. 1975	July 1975- Aug. 1975
Total private nonfarm	8.6	8.1	9.9
Manufacturing	9.6	8.7	9.0
Construction	7.1	11.6	12.6
Trade	7.5	6.1	5.1
Services	7.4	5.2	7.0

* Excludes effects of fluctuations in overtime premiums in manufacturing and of shifts of workers between industries.

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)1/

	Relative importance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to June 1975	June to July 1975	July to Aug. 1975
			Wholesale Prices			
All commodities	100.0	20.9	-6.3	7.2	14.9	9.3
Farm and food products	29.1	11.0	-27.6	17.0	54.8	-8.9
Industrial commodities	70.9	25.6	4.2	2.6	5.2	7.6
Materials, crude and intermediate2/	46.0	28.0	1.4	1.6	2.0	9.3
Finished goods						
Consumer nonfoods	17.5	20.5	3.8	4.1	7.1	11.8
Producer goods	8.6	22.6	11.8	5.1	5.2	3.0
Memo:						
Consumer foods	13.4	13.0	-12.9	23.7	30.0	-7.2
			Consumer Prices			
All items	100.0	12.2	6.0	7.1	13.8	
Food	24.8	12.2	-0.2	10.0	20.6	
Commodities (nonfood)	39.0	13.2	7.4	5.9	11.3	
Services	36.2	11.3	8.0	6.3	6.5	
Memo:						
All items less food and energy3/	68.3	11.3	9.4	4.2	8.5	
Petroleum products3/4/	4.4	22.8	-0.5	19.4	39.3	
Gas and electricity	2.5	19.6	17.7	17.5	10.6	

1/ Not compounded for one-month changes.
2/ FR estimate.
3/ Confidential--not for publication.
4/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity

FEDERAL BUDGET
(In billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 e/ Admin. Est. 1/	Fiscal Year 1976 e/ Cong. Est. 2/	Fiscal Year 1976 e/ F.R. Board	Calendar Years 1974 Actual	Calendar Years 1975 FRB e/	F.R.B. Staff Estimates: Calendar Quarters 1975 I*	1975 II*	1975 III	1975 IV	1976 I	1976 II
Federal Budget--Unified							Unadjusted data					
Surplus/deficit	-43.6	-59.9	-68.8	-66.7	-10.9	-71.9	-18.0	-12.0	-17.8	-24.1	-23.7	-1.1
Receipts	281.0	299.0	298.2	300.3	280.5	279.9	65.1	76.1	72.6	66.1	67.1	94.5
Outlays	324.6	358.9	367.0	367.0	291.4	351.8	83.1	88.1	90.4	90.2	90.8	95.6
Means of financing:												
Net borrowing from the public	50.9	74.0	n.a.	76.0	11.8	81.6	19.4	16.6	20.9	24.7	25.3	5.1
Decrease in cash operating balance	1.6	n.a.	n.a.	1.6	4.5	-.3	-.7	-1.0	-1.2	2.6	.2	--
Off-budget deficit 3/	-9.5	-14.2 4/	n.a.	-12.7	-3.6	-12.0	-5.3	-2.5	-1.1	-3.1	-3.9	-4.6
Other 5/	.6	n.a.	n.a.	1.9	-1.7	2.7	4.6	-1.1	-.8	-.1	2.1	.6
Cash operating balance, end of period	7.6	n.a.	n.a.	6.0	5.9	6.2	6.6	7.6	8.8	6.2	6.0	6.0
Memo: Sponsored agency borrowing 6/	10.8	n.a.	n.a.	n.e.	16.6	3.7	.1	-.3	1.2	2.7	n.a.	n.a.
NIA Budget							Seasonally adjusted, annual rates					
Surplus/deficit	-47.6 p/	n.a.	n.a.	-61.4 7/	-8.1	-73.3	-54.4	-104.6	-63.7	-70.6	-57.1	-54.3
Receipts	282.4 p/	n.a.	n.a.	314.0 7/	291.1	283.2	284.1	250.5	297.1	301.3	324.5	333.0
Expenditures	330.0 p/	371.4 2/	n.a.	375.4	299.1	356.6	338.5	355.0	360.8	371.9	381.6	387.3
High Employment Surplus/deficit (NIA basis) 8/9/	3.5	n.a.	n.a.	-6.2	19.1	-11.0	9.6	-37.9	-5.3	-10.5	-5.9	-3.3

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

1/ Mid-Session Review of the 1976 Budget, May 30, 1975.
2/ Concurrent Budget Resolution, May 14, 1975.
3/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.
4/ Unpublished, confidential O.M.B. estimate consistent with Mid-Session Review.
5/ Checks issued less checks paid, accrued items, and other transactions.
6/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
7/ Quarterly average exceeds fiscal year total by $.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.
8/ Estimated by F.R. Board staff.
9/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

DOMESTIC FINANCIAL SITUATION

III-T-1

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	August	34.6	-14.0	.1	-1.2
Reserves available (RPD's)	August	32.8	-5.6	.5	-.8
Money supply					
M1	August	295.4	3.7	7.9	5.3
M2	August	655.1	6.3	11.2	8.8
M3	August	1065.9	9.8	14.1	10.7
Time and savings deposits (Less CDs)	August	359.7	8.4	13.9	11.9
CDs (dollar change in billions)	August	77.9	-4.2	-7.6	-5.9
Savings flows (S&Ls + MSBs Credit Unions)	August	410.8	15.4	18.8	13.9
Bank credit (end of month)	August	710.6	4.0	7.6	12.9
Market yields and stock prices		Percentage or index points			
Federal funds wk. endg.	9/3/75	6.06	-.03	.82	-5.58
Treasury bill (90 day) "	9/3/75	6.40	.03	1.17	-2.78
Commercial paper (90-119 day) "	9/3/75	6.69	.19	1.26	-5.25
New utility issue Aaa "	9/5/75	- -	- -	- -	- -
Municipal bonds (Bond Buyer) 1 day	9/4/75	7.34	.18	.29	.46
FNMA auction yield (FHA/VA)	9/8/75	9.70	.38	.56	-.89
Dividends/price ratio (Common stocks) wk. endg.	9/3/75	4.30	- -	.32	-1.10
NYSE index (12/31/65=50) end of day	9/8/75	45.65	-.27	-3.54	9.19

Credit demands		Net change or gross offerings: Current month 1975	Current month 1974	Year to date 1975	Year to date 1974
Business loans at commercial banks	August	-.2	3.1	-6.7	25.6
Consumer instalment credit outstanding	July	.9	1.3	1.7	14.1
Mortgage debt outst. (major holders)	June	3.2	3.9	18.1	26.1
Corporate bonds (public offerings)	August	1.4e	2.0	25.5e	15.8
Municipal long-term bonds (gross offerings)	August	2.8e	1.1	21.4e	15.7
Federally sponsored Agcy. (net borrowing)	August	.1e	1.4	.5	10.1
U.S. Treasury (net cash borrowing)	September	6.1	.6	57.0	1.5
Total of above credits		14.3	13.4	117.5	108.9

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Most market interest rates have fluctuated within a narrow range since the August FOMC meeting. The recent tendency for the Federal funds rate to edge down from its summer high and the sluggish behavior of the monetary aggregates over most of the period have apparently alleviated some of the earlier market concern about an immediate tightening of monetary policy. In the Treasury market, yields eased on balance in both short- and long-term sectors, but private short-term market rates registered modest advances. Demands for short-term credit strengthened somewhat in association with the rising level of economic activity and a reduced pace of debt restructuring by corporations.

The problems of New York City forced municipal bond yields to record highs in early September. But most recently, with the passage of State legislation providing financial assistance and fiscal guidance to the City, conditions in municipal markets have shown some improvement. Rates on home mortgages have edged higher as concerns about slower deposit inflows to thrift institutions in coming months have increased lender caution and raised demands for forward commitments from the FNMA.

Monetary Aggregates

Growth in the monetary aggregates remained moderate in August, reflecting adjustments of household portfolios to earlier special Treasury disbursements and to the rise in yields on market instruments that has occurred since late June. M_1 is estimated to have grown at a 3.7 per cent annual rate, following a 2 per cent rate of increase in July. A large part of current transactions demand for money is apparently being met by the absorption of the May-June bulge. Measuring from April--before the special payments began affecting incoming data--through August, M_1 has increased at around an 8 per cent annual rate.

Bank time deposits other than large CD's recorded their slowest growth of the year in August, and growth in deposits at savings and loan associations, although still at a high level, was the slowest since January. At mutual savings banks deposit growth in August matched the reduced pace recorded in July. In part, the slackening of savings flows reflected increased competition from market instruments, as indicated by the expanding volume of noncompetitive tenders in recent Treasury bill and note auctions and by the modest August rise in net assets of money market mutual funds (following two months of decline). With outstanding business loans declining slightly and other time deposits still expanding, commercial banks allowed large CD's to run off for the seventh consecutive month. Consequently the credit proxy declined again in August.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1975 H1	1975 QI	1975 QII	1975 June	1975 July	1975 Aug.p	Twelve months ending Aug. 1975p
	Per cent at annual rates						
M_1	6.8	2.4	11.0	17.8	2.0	3.7	5.3
M_2	11.0	8.4	13.3	18.8	8.2	6.3	8.8
M_3 1/	13.2	10.4	15.6	19.6	12.4	9.8	10.7
Adjusted bank credit proxy	5.3	3.1	7.5	15.1	-5.2	-4.7	3.2
Time and savings deposits at commercial banks:							
a. Total	8.5	10.1	6.8	11.6	5.5	-4.4	8.0
b. Other than large CD's	14.7	13.6	15.3	19.7	13.2	8.4	11.9
Deposits at nonbank thrift institutions: 2/							
a. Savings and loan assocs.	19.2	17.0	20.5	23.0	18.6	13.0	14.2
b. Mutual savings banks	12.8	10.5	14.7	17.3	10.9	11.0	8.9
c. Credit unions	22.5	20.4	23.5	28.1	23.5	26.9	20.4
	Billions of dollars 3/						
Memoranda:							
a. U.S. Gov't demand deposits	.3	-.4	1.0	1.7	-1.3	0.3	-3.4
b. Negotiable CD's	-1.0	-.2	-1.9	-1.4	-2.0	-4.2	-5.9
c. Nondeposit sources of funds	-.2	-.6	.2	-.4	-.2	0.2	-2.0

1/ M_3 is defined as M_2 plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
2/ Based on month-end series.
3/ Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.
p - Preliminary.

Government Securities Market

Yields on most Treasury securities are unchanged to 15 basis points lower since the August FOMC meeting, and are now back to their early August levels. Banks again were an important source of demand for U.S. Government securities, increasing their holdings in August by $2.3 billion (seasonally adjusted).

System actions appear to have had a favorable impact on the Treasury securities market--particularly the tendency for the Federal funds rate to remain within the Committee's 6-1/8 to 6-1/4 per cent target range. System purchases of coupon issues on August 26, and the release of a letter from Chairman Burns to Representative Reuss indicating that the System will continue to give active consideration to future purchases contributed to the improved market tone. In addition, publication of data showing only moderate increases in the money stock through most of the inter-meeting period reinforced market expectations of near-term stability in the funds rate. More recently, however, the release of data showing a large jump in the money stock during the week of August 27 reduced confidence in these expectations.

Private Credit Markets

Rates on private short-term market instruments are now slightly higher than they were at mid-August. One factor contributing to the 10-15 basis point rise appears to be another increase of business borrowing in the commercial paper market. Outstanding commercial paper issued by firms other than banks rose $900 million in August on a seasonally adjusted basis, following an increase of $500 million in July. The August increase was almost evenly split between financial and nonfinancial issuers. A contra-seasonal increase in commercial paper issued by the finance company subsidiaries of auto companies accounted for most of the rise in offerings by financial borrowers. The rise in paper of nonfinancial firms was more broadly based. It appears to reflect both the bottoming out of the decline in business credit demands as the pace of inventory decumulation slows and the sharp cutback in long-term financing described below. Also, the continuing wide differential between the bank prime rate and commercial paper rates has encouraged borrowers to use the paper market.

Business borrowing from banks fell slightly in August, but the combined total of outstanding bank loans and nonfinancial commercial paper rose at a seasonally adjusted annual rate of 1.3 per cent. Although the increase was less than in July, this was the first time since late 1974 that total short-term business credit has increased for two consecutive months.

The recent relative stability of rates in the corporate bond market has reflected, among other things, a substantially reduced volume of new security offerings. Gross new offerings by domestic corporations totaled only $1.4 billion in August, the

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes-in per cent)

	Sept. '74 FOMC Sept. 10	June FOMC June 17	July FOMC July 15	Aug. FOMC Aug. 19	Aug. 26	Sept. 2	Sept. 9
Short-term							
Federal funds 1/	11.48	5.31	5.93	6.15	6.23	6.06	6.18p 4/
Treasury bills							
3-month	9.07	5.03	6.05	6.47	6.58	6.42	6.41
6-month	8.78	5.36	6.38	7.00	7.03	6.91	6.89
1-year	8.66	5.61	6.49	7.22	7.21	7.08	7.06
Commercial paper							
1-month	11.75	5.25	6.13	6.38	6.38	6.38	6.50
3-month	11.75	5.50	6.25	6.63	6.63	6.75	6.75
Large neg. CD's 2/							
3-months	11.85	5.50	6.45	6.85	7.00	6.90	7.00
6-months	11.75	5.88	7.00	7.70	7.85	7.65	7.80
Federal agencies							
1-year	9.87	6.20	7.24	7.99	7.97	7.75	n.a.
Bank prime rate	12.00	7.00	7.00	7.75	7.75	7.75	7.75
Long-term							
Corporate							
New AAA 1/	10.31	8.95	9.38	9.43	9.53	9.49	--
Recently offered 3/	10.24	9.22	9.45	9.49	9.54	9.50	9.42p
Municipal (Bond Buyer) 3/	6.88	6.80	6.98	7.17	7.18	7.18	7.34
U.S. Treasury (20-year constant maturity)	8.60	7.96	8.10	8.53	8.52	8.44	8.57
Stock prices							
Dow-Jones	658.17	828.61	881.81*	808.51	803.11	823.69	827.75
N.Y.S.E.	36.17	48.27	51.24*	45.23	44.71	45.55	45.00

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Thursday.
4/ Average for first 6 days of statement week ending September 10.
* High for the year.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual percentage rates)1/

	1974	1975				
	QIV	QI	QII	June	July	Aug.
Total loans and investments2/	-1.0	4.3	2.3	.9	5.3	6.8
U.S. Treasury securities	-26.8	81.1	97.4	73.3	16.4	37.3
Other securities	9.3	-1.4	4.9	12.0	8.5	5.1
Total loans2/	-1.2	-1.5	-9.5	-12.4	2.7	2.7
Business loans2/	3.5	-4.5	-10.9	-18.6	4.0	-1.3
Real estate loans	5.9	3.7	1.5	.9	.9	--
Consumer loans	-3.3	-6.7	-6.8	-4.4	5.9	n.a.
Memo:						
Business loans plus non-financial commercial paper3/	4.3	-2.6	-13.2	-19.2	6.9	1.3

1/ Last Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, non-consolidated nonbank affiliates of the bank holding companies (if not a bank), and non-consolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
n.a. - Not available.

lowest monthly volume since September 1974. In addition to the usual summer lull, this cutback was attributable to $425 million in postponements of new offerings because of unsettled market conditions early in the month. Moreover, the reduction in relative borrowing rates in the Euro-dollar markets contributed to a cessation of new publicly offered foreign issues in August. Although, an expansion in the volume of new corporate issues--to $2.1 billion--is forecast for September, this would still be well below the $3.6 billion monthly average experienced during the first half of the year. The generally slower pace of new corporate offerings may reflect the emergence of a better balance in corporate debt structures as well as a reduction in total financing requirements resulting from improved cash flows.

Corporations raised $650 million through equity issues in August, a little less than in July. A rebound in stock offerings is expected in September and October--with the previously announced AT&T issue accounting for $550 million of the October volume. Stock prices have risen somewhat on balance since the August FOMC meeting, but the N.Y.S.E. index still remains 10 per cent below its 1975 high.

State and Local Borrowing

Yields on municipal securities advanced to new record levels during the inter meeting period, as worries about a possible New York City default increased. Following several weeks of little or no change, the Bond Buyer index jumped 16 basis points to 7.34 per cent in the week ending September 4. On September 8, however, the New York

SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1975					
	QII e/	QIII f/	July e/	Aug. e/	Sept. f/	Oct. f/
			Gross Offerings			
Corporate securities - Total	5,218	3,567	4,000	2,650	4,050	4,600
Publicly-offered bonds	3,524	2,067	2,700	1,400	2,100	2,600
Privately-placed bonds	587	733	600	600	1,000	700
Stocks	1,107	767	700	650	950	1,300
Foreign securities 1/	392	408	925	0	235	300
State and local government securities						
Long-term	2,729	2,999	3,497	2,800	2,400	2,500
Short-term	3,100	1,953	1,558	1,800	2,500	2,100
			Net Offerings			
U.S. Treasury 2/	5,536	6,967	7,800	7,000	6,100	6,400
Sponsored Federal agencies	-115	393	599	94	487	1,366

e/ Estimated
f/ Forecast.
1/ Includes issues of foreign private and official institutions.
2/ Total Treasury issues, including Federal Financing Bank.

State Legislature accepted a plan of assistence for New York City which included a financing package to carry the City through mid-December and the assumption by the State of considerable control over New York City fiscal matters. Prices of MAC issues strengthened when the plan was announced, and the entire municipal market firmed when the legislation was finally passed. Investors in municipals, nevertheless, continue to exhibit a preference for quality, and yield differentials between higher and lower rated bonds remain large.

Consumer Credit

Consumer demands for credit picked up in July, along with the rise in retail sales. Outstanding consumer credit expanded at a $12 billion, or 6.6 per cent, annual rate, with both instalment and noninstalment debt registering larger increases than in June. Commercial banks increased their holdings of consumer loans in July, following eight consecutive months of decline. About half of the July rise in instalment credit was attributable to an increase in auto credit, in fact, new extensions of such credit were the highest on record. Since retail sales changed little in August, however, the July rate of increase in consumer credit may not be sustained. Finance rates have been relatively stable in recent months, but consumer loan maturities have been extended, especially for autos.

CONSUMER INSTALMENT CREDIT

	Change in outstandings (SAAR)		Credit extensions			New-car finance rates
	($ billions)	(Per cent)	Total, SAAR ($billions)	Bank share (Per cent)	Open-end share* (Per cent)	Annual percentage rate at finance companies
1974 - I	8.8	6.1	164.3	41.9	29.2	12.29
II	14.0	9.5	172.9	41.5	30.0	12.50
III	14.1	9.3	172.5	42.3	30.6	12.84
IV	-3.2	-2.1	155.7	41.1	33.2	13.10
1975 - I	-2.4	-1.6	156.5	41.9	32.5	13.07
II	.2	.1	161.2	41.5	32.7	13.09
Apr.	-2.9	-1.9	158.2	41.4	32.1	13.07
May	-1.5	-1.0	157.8	41.6	33.5	13.09
June	5.1	3.3	167.5	41.3	32.5	13.12
July	10.4	6.8	172.5	41.4	31.2	13.09

* Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

Mortgage Markets

In the primary market for residential mortgages, rates on new commitments for home loans rose about 15 basis points following several months of little change. In FNMA auctions of forward purchase commitments, yields rose substantially further and the quantity of offers remained large. With FHA and VA mortgages selling at deep discounts in the secondary market, the maximum contract rate for government insured or guaranteed mortgages was raised from 8-1/2 to 9 per cent, effective September 2. These advances in mortgage rates were partly a lagged response to earlier increases in other security yields, but they also reflect the increased demand for mortgage credit that has accompanied the general pickup in house sales. In addition, market participants apparently are concerned that securities market rates will rise further and precipitate a larger cut-back in deposit flows to thrift institutions, thereby leading to an appreciable further tightening in the mortgage market.

The volume of new mortgage commitments approved by savings and loan associations during July (latest data available) was the largest for any month since early 1973 and the total of commitments outstanding reached its highest level since April 1974. While deposit inflows have subsequently slowed, associations in all FHL Bank districts continue to report funds to be in adequate supply.

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

End of Period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Number of Federal Home Loan Bank Districts with banks in short supply
1974--High	10.03	--	12
Low	8.40	--	0
1975--High	9.59	--	10
Low	8.80	--	0
Aug. 1	8.90	0	0
8	8.90	0	0
15	8.94	+4	0
22	8.94	0	0
29	9.02	+8	0
Sept. 5	9.07	+5	0

FNMA AUCTIONS OF HOME MORTGAGE PURCHASE COMMITMENTS

	Government-underwritten			Conventional		
	Amount (in millions of dollars)		Yield to FNMA	Amount (in millions of dollars)		Yield to FNMA
	Offered	Accepted		Offered	Accepted	
1974--High	1,155(3/25)	333(3/25)	10.59 (9/9)	164 (4/8)	63 (4/8)	10.71 (9/9)
Low	26(11/18)	18(11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
1975--High	643(8/25)	366(8/11)	9.50 (8/25)	100 (4/7)	51 (4/7)	9.55 (8/25)
Low	25(2/10)	18(2/10)	8.78 (3/10)	11 (1/27)	9 (2/10, 2/24)	8.96 (3/10)
Aug. 11	579	366	9.32	97	49	9.38
25	643	223	9.50	99	31	9.55
Sept. 8	530	198	9.70	97	44	9.75

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

INTERNATIONAL DEVELOPMENTS

U.S. International Transactions
(in millions of dollars; seasonally adjusted)

	1974	1975			
	YEAR	Q-1	Q-2	June*	July*
1. Trade balance	-5,259	1,917	3,464	1,903	693
2. Merchandise exports	98,269	27,222	25,768	8,940	8,848
3. Merchandise imports	103,528	25,305	22,304	7,037	8,155
4. Net service transactions	9,102	1,503			
5. Balance on goods & services 1/	3,843	3,420			
6. Remittances and pensions	-1,721	-458			
7. Gov't grants and capital, net	-4,342	-1,235			
8. Bank-reported private capital, net change	-2,534	-5,417	-4,189	-1,101	1,338
9. Claims on foreigners (inc. -)	(-19,325)	(-3,756)	(-3,625)	(-399)	(-322)
10. Short-term	-18,166	-3,358	-3,424	-514	107
11. Long-term	-1,159	-398	-201	115	-429
12. Liabilities to foreigners (inc. +)	(16,791)	(-1,661)	(-564)	(-702)	(1,660)
13. Long-term liabilities	9	-40	-287	-67	-75
14. Short-term liabilities 2/	16,782	-1,621	-277	-635	1.735
15. to commercial banks abroad	(12,636)	(-2,683)	(285)	(28)	(1,050)
16. (of which liab. to branches) 3/	(2,349)	(-1,085)	(197)	(-575)	(-490)
17. to other private foreigners	(2,851)	(201)	(105)	(60)	(-77)
18. to int'l & regional organizations	(1,295)	(861)	(-667)	(-723)	(762)
19. Private transactions in securities, net	-1,318	-1,373	-376	-333	115
20. U.S. purchases (-) of foreign securities	(-1,990)	(-2,021)	(-1,001)	(-655)	(-706)
21. of which: New bond issues	-2,378	-2,108	-1,235	-729	-875
22. Foreign purch. (+) of U.S. corp. securities	(672)	(648)	(625)	(322)	(821)
23. Stocks	544	958	895	258	589
24. of which by OPEC	(190)	(324)	(319)	(87)	(155)
25. Bonds	130	-310	-270	64	232
26. U.S. direct investment abroad, (inc. -)	-7,268	-937			
27. Foreign direct investment in U.S., (inc. +)	2,224	326			
28. Nonbank-reported: liquid claims, (inc. -)	-133	317	89		
29. other claims, (inc. -)	-3,004	-68			
30. liabilities, (inc. +)	1,316	233			
31. Changes in liab. to foreign official agencies	9,808	3,586	1,654	717	-871
32. OPEC countries (inc. +) 3/	10,025	270	951	-228	878
33. Other countries (inc. +)	-217	3,316	703	945	-1,749
34. Changes in U.S. reserve assets (inc. -)	-1,434	-326	-51	-3	-13
35. Gold	--	--	--	--	--
36. Special drawing rights	-172	-5	-38	--	--
37. Reserve position in the IMF	-1,265	-307	-7	18	-36
38. Convertible currencies	3	-41	-6	-21	23
39. Errors and omissions	4,563	1,932			
Memo:					
40. Official settlements balance, S.A.		-3,260	-1,603		
41. N.S.A.	-8,374	-2,226	-1,203	-714	884
42. O/S bal. excluding OPEC, S.A.		-2,990	-652		
43. N.S.A.	1,651	-1,956	-252	-942	1,762

*/ Not seasonally adjusted (except for merchandise trade data lines 1-3).
1/ Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluded from GNP net exports).

2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p = Preliminary.

Foreign exchange markets. During the past month, the dollar has remained essentially steady on a weighted-average basis as well as against individual currencies. An exception was the Canadian dollar, which has risen about 3/4 per cent against the dollar in the past week in response to the increase in the Canadian discount rate from 8-1/4 per cent to 9 per cent.

Apart from the rise in Canadian interest rates, most foreign interest rates have tended to decline slightly over the past 4 weeks. These declines are consistent with the reduction in discount rates by most of the major industrial countries -- Belgium, Switzerland, Germany, Japan, Denmark, Sweden, the Netherlands, and France. U.S. money market rates have shown little movement over the past month.

Net central bank intervention since mid-August has been relatively small. Large purchases of dollars by the Bank of France, to keep the French franc from appreciating against the German mark, have been largely offset by large sales of dollars by the Bank of Japan, which attempted to keep the yen/dollar rate at 298. A pick-up in Japanese imports, combined with conversions by foreign investors of maturing Japanese government securities, were the major sources of pressure on the yen. The Swiss National Bank has purchased a large amount of dollars in the exchange market, but there has been little net change in BNS dollar holdings since there have been sales of dollars to foreign borrowers of Swiss francs, who are required to immediately convert their borrowings into dollars with the central bank. The purchases of dollars by the Swiss National Bank are timed to have a maximum effect in keeping the Swiss franc from appreciating against the mark. During the past four weeks, the System purchased about $30 million equivalent of marks to hold in balances.

The price of gold dropped more than $10, to $149.50 following the August 31 agreement by the IMF's Interim Committee that in principle paved the way for the sale of 25 million ounces of the IMF's gold. (For detailed discussion of the Bank-Fund annual meetings see the Appendix). Gold traded in the low $150's through the 9th of September, when the price fell to $148.50 following a news report that the Russians had already sold 3.5 million ounces of gold and might sell more in order to pay for their purchases of foreign grain.

<u>Euro-dollar market</u>. Euro-dollar deposit rates showed little change, on balance, over the past several weeks as U.S. money market rates maintained a rather flat trend. U.S. banks' gross liabilities to their own foreign branches rose by $ million in the four weeks ended September 3, perhaps reflecting the effects of downward movements in foreign national money market rates which would tend to reduce the cost of Euro-dollar funds relative to domestic funds for U.S. banks.

The differential between the cost of short-term Euro-dollar loans and the cost of short-term borrowing in the United States, either through issuing commercial paper or borrowing from banks, moved slightly in favor of borrowing Euro-dollars.

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

Average for month or week ending Wednesday	(1) Over-night Euro-$	(2) Federal Funds	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit	(5) 60-89 day CD rate	(6) Differ-ential (4)-(5)(*)
1975-May	5.20	5.22	-0.02 (0.20)	7.30	5.41	1.89 (1.85)
June	5.55	5.55	0.00 (0.23)	6.10	5.35	0.75 (0.65)
July	5.96	6.10	-0.16 (0.11)	7.13	6.03	1.10 (1.02)
August	6.11	6.14	-0.03 (0.22)	7.23	6.28	0.95 (0.85)
Aug. 6	6.20	6.09	0.11 (0.37)	6.98	6.25	0.73 (0.62)
13	6.12	6.08	0.04 (0.30)	7.24	6.25	0.99 (0.89)
20	5.83	6.07	-0.24 (-0.08)	7.16	6.31	0.85 (0.75)
27	6.07	6.23	-0.16 (0.09)	7.50	6.31	1.19 (1.10)
Sept. 3	6.40	6.06	0.34 (0.61)	7.23	6.38	0.85 (0.74)
10 p/	6.50	6.18	0.32 (0.59)	7.19	6.38	0.81 (0.70)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary.

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1975; Friday dates)

	Aug. 8	Aug. 22	Aug. 29	Sept. 5
1) 3-mo. Euro-$ loan a/	8.44	8.69	8.44	8.32
2) 90-119 day com'l. paper b/	6.63	6.76	6.76	6.88
3) U.S. bank loan:				
a) predominant prime rate	7.50	7.75	7.75	7.75
b) with 15% comp. bal's. c/	8.82	9.12	9.12	9.12
c) with 20% comp. bal's. c/	9.38	9.69	9.69	9.69
Differentials:				
(1) - (2)	1.81	1.93	1.68	1.44
(1) - (3a)	0.94	0.94	0.69	0.57
(1) - (3b)	-0.38	-0.43	-0.68	-0.80
(1) - (3c)	-0.94	-1.00	-1.25	-1.37

a/ 1-1/8 per cent over deposit bid rate.
b/ offer rate plus 1/8 per cent.
c/ prime rate adjusted for compensating balances.

U.S. International Transactions. Data available for July indicate 1) a continuation for the sixth consecutive month of a trade surplus for the United States, 2) a substantial inflow of liquid capital from foreign banks, 3) large foreign purchases of U.S. corporate stocks, and 4) a reduction in liabilities to foreign official agencies. Preliminary data for August indicate a further decline in liabilities to foreign official agencies and a reduced inflow of private funds to U.S. banks.

U.S. merchandise trade for July continued the trade surplus that has prevailed since February. The $8.3 billion (seasonally adjusted annual rate) surplus was less than the $13.9 billion rate for the second quarter, but it was still one of the highest quarterly surpluses ever. The value of exports, at $106.2 billion, was somewhat higher than the rate for the second quarter but close to the average that has been maintained with little variation since last October. The value of imports rose by almost 10 percent from the depressed rate for the second quarter.

U.S. MERCHANDISE TRADE, BALANCE OF PAYMENTS BASIS
(billions of dollars, seasonally adjusted annual rates)

	1974				1975		
	1Q	2Q	3Q	4Q	1Q	2Q	July
EXPORTS	89.8	96.8	100.1	106.3	108.9	103.1r	106.2
Agric.	23.2	22.9	21.0	22.5	25.1	19.2r	20.8
Nonagric.	66.6	74.0	79.1	83.8	83.8	83.9	85.4
IMPORTS	90.3	102.7	109.2	111.9	101.2	89.2	97.9
Fuels	20.0	28.4	31.1	31.0	27.7	25.1	28.7
Nonfuels	70.3	74.3	78.1	80.9	73.5	64.2	69.2
BALANCE	-0.5	-5.8	-9.1	-5.6	+7.7	+13.9r	+8.3

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

Nonagricultural exports for July were slightly above the rate for the second quarter, but remained close to the essentially constant level of the past three quarters. During 1975 exports of industrial materials have declined somewhat while capital goods exports have continued to grow. New orders for capital goods have held up well with the estimated volume of new orders for durables (excluding motor vehicles and aircraft) for June and July about 5 percent above the average level for the second quarter. The new orders series has recently been a useful leading indicator of the volume of nonagricultural exports.

Agricultural exports for July were higher than for the second quarter but lower than for the first quarter and for most of last year. Sales of grain to the Soviet Union will begin to show up as exports later this year and will continue into next year. The effect of these sales and some downward revision of the anticipated size of the U.S. corn crop will push up prices for agricultural exports to all countries in the months ahead. The Soviet Union has purchased about 10 million metric tons of grain in the United States so far, and on the basis of information on the likely size of their crops, the Soviet Union may need to buy an additional 7 to 9 million metric tons. Negotiations are now underway to determine what additional purchases will be permitted. A total sale of 18 million metric tons to the Soviet Union would earn the United States about $2.4 billion in export receipts over the next 12 months.

An increase of fuel imports of $3.6 billion (seasonally adjusted annual rate) over the level for the second quarter accounted for two-fifths of the total July increase in imports. Monthly figures for fuel imports have been extremely unstable this year due, in part, to leads and lags induced by changes in import fees. A single month's data have been a poor indicator of what to expect in subsequent months, but some increase of fuel imports over the low level for the first half of the year would be in line with rising economic activity.

Nonfuel imports in July were 8 percent above the rate for the second quarter, marking the second consecutive month of strong increases. More than three fourths of the July increase over the second quarter was accounted for by increases in imports of automotive vehicles and parts and in consumer goods. Industrial supplies were up somewhat from their most depressed levels; further increases will come as the rundown in U.S. business inventories ends.

U.S. International Capital Transactions. Bank-reported private capital transactions shifted to a net inflow in July following net outflows in the previous two months and a substantial net outflow in the first half of the year. Securities transactions also resulted in net inflows. The inflows were a response to relatively attractive interest rates in the United States, which also contributed to the sharp appreciation of the dollar against all major currencies in that month. A large reduction in U.S. liabilities to foreign official agencies occurred in

July as some countries supported their currencies by selling dollars, thus accommodating a larger net inflow of private capital to the United States than would otherwise have occurred. Partial data for August show a further decline in liabilities to foreign official agencies.

Bank-reported private capital transactions resulted in a net inflow of funds in July of $1.3 billion following large net outflows in both the first and second quarters. Claims on foreigners increased by $.3 billion, well below the average increase of $1.2 billion per month in the first half of 1975. Preliminary indications are that bank claims on foreigners increased little, if at all, in August. Bank-reported

SELECTED CAPITAL FLOWS
(in billions of dollars, seasonally adjusted)

	1974		1975p		
	3Q	4Q	1Q	2Q	July 1/
Bank-reported private capital, net	1.7	.5	-5.4	-4.2	1.3
Claims (inc.-)	(-2.3)	(-4.2)	(-3.8)	(-3.6)	(-.3)
Liabilities	(4.0)	(4.8)	(-1.7)	(-.6)	(1.7)
Private securities transactions, net	-.1	-1.5	-1.4	-.4	.1
U.S. purchases of foreign securities (inc.-)	-.3	-.8	-2.0	-1.0	-.7
Foreign purchases of U.S. securities	.2	-.7	.6	.6	.8
Liabilities to foreign official agencies, net	.9	4.7	3.6	1.7	-.9
OPEC 1/	4.1	2.6	.3	1.0	.9
Non-OPEC	-3.2	2.1	3.3	.7	-1.7

p = Preliminary

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

1/ Not seasonally adjusted.

liabilities to private foreigners increased by $1.7 billion in July, of which $1.1 billion were liquid liabilities to foreign commercial banks. The growth in these liabilities reflects, in part, funds attracted by a rise in U.S. short-term interest rates relative to continental European rates. Bank-reported liabilities to international and regional institutions increased by $.7 billion. The proceeds of $.5 billion in new IBRD bonds sold in the U.S. are included in this figure and should be drawn down in subsequent months.

Transactions in securities (other than U.S. Treasury issues) resulted in a net inflow of $100 million in July, following outflows in both the first and second quarters. Net U.S. purchases of foreign securities (including the IBRD issues) were $700 million, roughly in line with average purchases of about $500 million per month in the first half of the year. Foreigners purchased net $800 million of U.S. stocks and bonds in July, more than half as much as they bought in the entire first half of 1975 and more than they bought in all of 1974. About $150 million of this is estimated to represent direct OPEC purchases of stocks. The bulk of the rest was purchased by agencies in major international financial centers.

U.S. liabilities to foreign official agencies, other than in OPEC countries, declined by $1.7 billion in July following increases that averaged $600 million per month for the first half of the year. Much of the unusual and large rundown of official liabilities is accounted for by declines in the holdings of Germany ($600 million) and Italy ($700 million) as these and other countries supported their currencies in exchange markets and, in addition, Italy repaid about $500 million of Eurodollar borrowing. The decline in liabilities to official agencies other than in OPEC countries continued in August. Liabilities to OPEC countries increased by about $900 million in July and by about the same in August, a considerably faster rate than in the first half of 1975.

Recent Stimulative Measures in Foreign Industrial Countries. In recent months the authorities in most major industrial countries have found their economies to be considerably weaker than they had expected earlier, with the recession turning out to be much deeper and more prolonged than they had anticipated, and unemployment in most countries still rising. Most economic forecasts in recent months have been revised downwards. Understandably disappointed with these economic prospects, they have concluded that some stimulus is needed and have either implemented in the past month, or are about to introduce, stimulative programs. The main exceptions are the United Kingdom, where the exceptionally high rate of inflation and a vulnerable external position preclude the introduction of a domestic expansionary program, and Canada, where no major expansionary actions have been taken recently. In fact, the U.K. authorities have recently introduced a new restrictive program (see last month's Greenbook), and the Canadian authorities in early September initiated moves to tighten monetary conditions.

The introduction of stimulative measures in many countries reflects a concern about continued high and rising levels of unemployment and low capacity utilization levels. The authorities are still concerned to restrain inflation, but they judge that the persistent weakness of activity requires some expansionary action at this stage of the cycle. As indicated by the data below, the level of industrial production in the major countries in June-July had fallen substantially below the earlier peak month.

Decline in Industrial Production from Peak Month to June 1975[1/]
(Seasonally adjusted, actual percentage changes)

Germany	France	Italy	U.K.	Japan[2/]	Canada	U.S.[2/]
-11.3	-13.2	-14.2	-8.5	-15.2	-7.5	-13.1
(Sept.'73)	(Aug.'74)	(Jan.'74)	(July '74)	(Nov.'73)	(Mar.'74)	(Nov.'73)

1/ Month and year in parentheses indicate most recent peak.
2/ To July, 1975.
Note: Industrial Production excluding construction, except that U.K. includes construction.

Even in Japan, which has experienced small increases in industrial production for five successive months, output is still 15 per cent below the peak level of November 1973. In France, the U.K., Italy and several smaller countries, economic activity is still weakening. There is some feeling that since export-led growth is not likely to occur in the near future, the authorities will have to rely instead on stimulative domestic programs.

Although the new programs rely primarily on fiscal measures, some also include further stimulative monetary policies. Most of the programs appear to be relatively moderate in scope. The latest German program, for example, is equivalent to only about 0.6 per cent of GNP, while current reports indicate that the Japanese program is likely to be fairly moderate in size. Most of the programs involve an acceleration of public works expenditures, moderately reduced tax burdens and expanded credit availabilities. There is some uncertainty as to how quickly and extensively these programs will be implemented. Moreover, most of the increases in government spending will be spread over a period of time, and the size of the programs should not be viewed as instant injections of additional demand. At the same time, the roughly simultaneous introduction of expansionary programs by many countries will likely have a reinforcing expansionary impact greater than the sum of the individual programs.

Since September of last year, Germany has introduced a series of stimulative measures. These included a modest program to aid the construction industry in September 1974, a DM 3.5 billion investment bonus and government investment program in December, a DM 14 billion tax reform package in January and a series of credit-easing measures. The results of these programs have so far been disappointing; economic activity remains depressed and total industrial production declined further in July. The unemployment rate has continued to increase, reaching 5.9 per cent (seasonally adjusted) in August, the highest rate since the mid-1950's.

On August 27 the authorities announced a DM 5.75 billion ($2.2 billion) supplementary stimulation program. The program's main emphasis is on supporting Germany's ailing construction indsutry, where capacity utilization is roughly 52 per cent, and especially to sustain the industry through the difficult winter months. The new program includes DM 3 billion for municipal public works, DM 1.2 billion for federal investment expenditures, DM 1 billion for residential housing and DM 0.6 billion for new municipal jobs.

The moderate size of the program reflects the authorities concern about a possible resurgence of inflation next year, especially if earlier fiscal and monetary measures begin to take hold over time. In addition, the authorities are concerned about the already massive public sector deficit for 1975, which is now put at DM 70 billion, compared with a DM 9 billion deficit in 1974. In fact, the authorities also announced that they plan to restrain budget expenditures in 1976, allowing only a 4 per cent rise in expenditures over 1975 (which would probably mean a cut in real terms), to raise unemployment insurance contributions in 1976, and to increase the value added tax in 1977 by 2 percentage points.

France, which has moved more slowly than other European countries to stimulate her domestic economy and where the recession is still deepening, announced a new expansionary fiscal program on September 4. In addition, the Bank of France reduced its discount rate from 9.5 to 8.0 per cent, and lowered reserve requirements on demand deposits from 11 to 2 per cent, adding approximately Fr. 20 billion to bank liquidity. Other measures aimed at easing credit conditions and stimulating consumption included an easing of installment credit terms, and a liberalization of lending limits imposed on finance companies and home mortgage firms.

The new fiscal package comprises Fr. 30.5 billion ($6.9 billion) and it includes the following principal elements: 1) Fr. 13.1 billion in new investments, primarily for public works and for use by the Economic and Social Development Fund; 2) Fr. 5.0 billion in lump-sum payments to pensioners, the handicapped and families with school children; and 3) Fr. 2.8 billion in potential tax benefits for companies through a change in depreciation allowances.

The program also includes Fr. 9.6 billion in temporary tax relief for companies through a postponement of taxes already due, or coming due soon, to April 15, 1976. The tax-postponement part of the program -- which represents nearly one-third of the program -- differs from the other parts in that it constitutes primarily a temporary easing of corporate liquidity, since it delays, rather than reduces, tax payments.

In Italy, where the authorities have gradually relaxed their restrictive policies since the beginning of the year, a major stimulative program was approved by the Cabinet on August 8. The package of measures authorizes expenditures of 3.5 to 4.0 trillion lire ($5.3 to $6.0 billion) during the rest of 1975 and in 1976 and 1977. The program is viewed by the Government as being mainly designed to avoid large-scale unemployment. About one-third of the reflationary package is designed to stimulate exports, while most of the remainder involves increased investment and public works expenditures. The program's implementation may be hampered by Italy's endemic bureaucratic lassitude and the possibility of a government crisis this fall.

In Japan, the authorities have so far been cautious in introducing stimulative measures, citing their concern about a renewal of inflationary pressures. There have been three "anti-recession programs" since February of this year, but these have been relatively moderate in scope and they have involved an acceleration in public works expenditures rather than new budget appropriations. The level of economic activity has increased moderately since March and real GNP rose at an annual rate of about 3.2 per cent in the second quarter of this year over the first quarter. However, industrial production is still far below capacity.

With the recent failure of the large Kohjin Company, there is currently greater concern that new measures should be taken to prevent additional business failures, as well as to improve the serious unemployment situation. Business failures (measured by debts outstanding) in August, including the Kohjin collapse, were the highest in the postwar period, while the rate of unemployment in July reached 1.9 per cent, the highest level since 1959.

Monetary policy has been relaxed recently (with the discount rate reduced for the third time this year on August 13 and the quarterly loan ceilings for the large city banks relaxed late in August), and a fourth cut in the discount rate is imminent. The Government is also planning to introduce in the coming weeks a supplementary budget for the current fiscal year. Press reports indicate that ¥500 billion ($1.7 billion) may be appropriated for public works expenditures and ¥800 billion ($2.7 billion) may be allocated to local governments suffering revenue shortfalls. Prime Minister Miki is expected to outline a fourth anti-recession program at the opening session of the Diet on September 12.

Canada introduced an expansionary budget in November 1974, and the June budget reconfirmed this stance. Since the June budget, no new major stimulatory measures have been announced. The slide in economic activity has halted, with real GNP rising at an annual rate of 0.3 per cent in the second quarter over the first quarter. The authorities are concerned about recent cost and price developments, particularly with consumer prices increasing at an annual rate of nearly 12 per cent in May-July over the previous three months. On September 4 the Bank of

Canada increased the discount rate from 8.25 to 9.0 per cent, primarily in order to slow an excessive rate of monetary expansion and to establish a better relationship between the discount rate and domestic and U.S. money market rates.

Certain smaller countries where economic activity has also been sluggish, have either taken, or are planning, new stimulative measures to revive activity. The Netherlands has approved new tax measures to stimulate investment through the use of tax investment credits and liberalized depreciation allowances, and additional measures are planned. Sweden has shifted toward easier credit conditions and released blocked environmental and investment funds. Denmark is planning to reduce the value added tax, increase public works expenditures and take other actions that would pump the equivalent of about $1 billion into the economy over the next year. The Norwegian Government has proposed the equivalent of a $425 million package of financial assistance to industry, state and local governments, and higher cash benefits for the unemployed. In addition, a price freeze -- with prices forzen at the September 1, 1975, levels for the rest of the year for both the public and private sectors -- was announced on September 5. Austria has announced plans to release the equivalent of about $250 million in government reserve funds in the coming weeks for public works expenditures. Australia's recently announced budget for 1975-76 will be expansionary and includes a reduction in corporation taxes, an increase in depreciation allowances, and the exemption of about 500,000 low-income workers from income tax payments.

APPENDIX A*

Recent International Monetary Meetings

During the week of August 30 - September 5, at the time of the IMF/IBRD Annual Meetings, meetings were also held of the finance ministers and central bank governors of the five major industrial countries, the G-10 finance ministers and central bank governors, the IMF Interim Committee, and the IMF/IBRD Development Committee. This series of meetings produced tentative agreements on IMF quotas and gold, and provided the opportunity for extended discussion by the governors of the Fund and the World Bank of the world economic situation.

On August 31, 1975, the Interim Committee reached agreement on two major issues: the distribution of the proposed 33.6 per cent increase in IMF quotas and arrangements governing gold. These agreements are incomplete in two respects: (1) they are subject to reconfirmation at the January, 1976, meeting of the Interim Committee in Jamaica, by that time an attempt will have been made to reach an agreement on exchange-rate arrangements to complete the three-part package, and (2) several technical issues are unresolved particularly with respect to gold.

On the question of IMF quotas, the Interim Committee reached agreement in January of this year that the Fund should be expanded by 33.6 per cent to SDR 39 billion; they also decided that the collective share of the oil-exporting countries should be doubled from 5 to 10 per cent of total IMF quotas and that the collective share of the other developing countries, roughly 20 per cent, should remain unchanged. These decisions, of course, implied that the 13 industrial countries and the 13 so-called other developed countries would have to absorb a substantial reduction in their combined quota shares.

At the August meeting of the Interim Committee, the industrial countries were finally able to reach agreement concerning how they would absorb a 4.14 percentage point reduction in their collective quota share. The United States finally accepted a quota share of 21.55 per cent, down from its current share of 22.95 per cent. This revised quota share would be just sufficient in a 126-member, SDR 39 billion Fund to give the United States the 20 per cent voting share now required to veto decisions on quota increases, amendments to the IMF Articles, and the expansion of the number of IMF Executive Directors. Recognizing that the U.S. share will continue to decline as new members join the Fund, the United States successfully insisted that the veto-point on major issues and amendments should be lowered to 15 per cent. In fact, Grenada has just joined the IMF as the 127th member, which under the proposed new quotas would lower the U.S. voting share below 20 per cent.

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* Prepared by Edwin M. Truman, Division of International Finance.

The undecided aspects of the quota issue involve the few countries that remain unhappy with their proposed new quotas, which still require formal approval and ratification, and decisions on the form in which the so-called gold-tranche portion of the increased quota subscriptions will be paid.

On gold, the Interim Committee reached agreement (1) that the official price of gold, 35 SDR per ounce, should be abolished by amending the IMF Articles; (2) that the obligation of IMF members to use gold in transactions with the Fund should be eliminated; (3) that the Fund's authority to accept gold in transactions other than by a 85 per cent majority vote should be eliminated; (4) that 1/6 of the IMF's gold, 25 million ounces, should be sold with the profits used for the benefit of developing countries; and (5) that another 1/6 of the IMF's gold should be returned (restituted) directly to members. The G-10 countries also agreed that their transactions in gold would be governed for a period of two years by certain understandings: (1) there should be no action to peg the price of gold; (2) the total stock of gold now in the hands of the Fund and the monetary authorities of the G-10 countries should not increase; and (3) they would respect any further conditions governing gold trading that might be agreed among their central bank representatives. (Other countries will be allowed to participate in these agreements subject to the necessary technical modification of the agreements.) Tentative agreement was possible on the gold issue because the United States dropped its earlier insistence that inter-governmental transactions in gold should be restricted.

The agreement on gold is incomplete in the following respects. First, the date on which the IMF can start to dispose of its gold and begin to use the profits for the benefit of the developing countries has not been agreed. The United States would like the process to start immediately; many European countries would like it to wait until the IMF Articles have been amended or until restitution can start, and they are concerned about the possible effect on the market price of gold of the disposal of the IMF's gold. Second, it is not clear when inter-governmental transactions in gold may start. Under the IMF Articles, members may not buy gold at above the official price; in other words, they may not buy gold at a market-related price until the official price is abolished by amending the IMF Articles. Some countries may want to buy gold from each other before the Articles are amended, or they may want to buy gold from the market especially if some of the IMF's gold is sold in the market. Third, the starting date for the two-year, G-10 agreement has not been fixed. Fourth, the base date for the limit on overall gold holdings has not been agreed. Fifth, the possible additional conditions on transactions in gold and the role of the IMF in this area have not been decided.

Some of these issues should be clarified by the time the Interim Committee meets in early January in Jamaica. Until they are clarified, it will be difficult to assess the implications of the tentative agreement that has been reached. In January, it is also expected that an agreement on exchange-rate arrangements will be reached. If this third issue is not resolved, then the entire three-part agreement could be placed in jeopardy. If it is resolved, then a package of amendments to the IMF Articles including a number of less controversial changes in the Articles will be submitted to governments for their approval and ratification, a process that may take 18 months or longer.

On exchange-rate arrangements, the United States attaches particular importance to the legalization of floating under the IMF Articles; it insists that the United States should be under no moral or legal obligation to have a par value. France and a number of other European countries would like to retain the objective of stable but adjustable par values; in particular, a number of these countries would like to see more active management of floating exchange rates leading to a staged return to par values.

With respect to the world economic situation, two features dominated discussions at the Annual Meetings. First, the developing countries expressed their concern about the enormous size of their balance-of-payments deficits. This is one of the reasons why they welcomed the proposals to use the profits from the disposal of the IMF's gold for their benefit. This is also one of the reasons why the United States at the Annual Meetings and at the U.N. Special Session proposed a substantial enlargement and liberalization of the IMF's facility for financing fluctuations in export earnings and on expansion of the International Finance Corporation. Second, the representatives of many countries expressed their worries about the prolonged world recession and the timing and strength of the upturn in world economic activity. Many speakers made it clear that they were looking to the United States, Germany and Japan to lead the way. Secretary Simon, however, stated forcefully that the United States had taken appropriate actions and was concerned about the possibility of excessive stimulative actions.