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CONFIDENTIAL (FR)

June 15, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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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 rate)		
Civilian labor force	May	6-3-77	97.2	4.9	4.2	2.8
Unemployment rate (%) 1/	May	6-3-77	6.9	7.0	7.5	7.3
Insured unemployment rate (%) 1/	May	6-3-77	3.7	3.7	4.3	4.3
Nonfarm employment, payroll (mil.)	May	6-3-77	81.8	2.8	4.8	3.1
Manufacturing	May	6-3-77	19.5	4.1	6.5	2.9
Nonmanufacturing	May	6-3-77	62.2	2.3	4.2	3.2
Private nonfarm:						
Average weekly hours (hr.) 1/	May	6-3-77	36.3	36.2	36.3	36.3
Hourly earnings ($) 1/	May	6-3-77	5.20	5.17	5.09	4.84
Manufacturing:						
Average weekly hours (hr.) 1/	May	6-3-77	40.4	40.2	40.3	40.3
Unit labor cost (1967=100)	Apr.	5-27-77	150.0	3.2	7.3	5.6
Industrial production (1967=100)	May	6-15-77	137.8	13.2	13.8	6.3
Consumer goods	May	6-15-77	143.6	5.0	7.4	4.5
Business equipment	May	6-15-77	149.3	21.3	17.3	10.9
Defense & space equipment	May	6-15-77	80.3	15.1	9.2	2.7
Materials	May	6-15-77	138.5	14.9	18.4	6.0
Consumer prices (1967=100)	Apr.	5-20-77	179.8	9.4	9.6	6.8
Food	Apr.	5-20-77	191.0	17.9	16.3	6.5
Commodities except food	Apr.	5-20-77	164.0	4.4	5.9	6.1
Services	Apr.	5-20-77	191.4	9.5	9.0	7.6
Wholesale prices (1967=100)	May	6-3-77	195.2	4.4	10.1	7.3
Industrial commodities	May	6-3-77	193.7	5.0	7.4	7.6
Farm products & foods & feeds	May	6-3-77	198.2	3.0	21.3	6.4
Personal income ($ bil.) 2/	Apr.	5-18-77	1497.6	9.0	15.6	10.7
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Apr.	6-1-77	58.9	-.8	7.1	17.1
Capital goods industries	Apr.	6-1-77	18.5	9.3	12.4	22.1
Nondefense	Apr.	6-1-77	14.9	1.7	.9	19.5
Defense	Apr.	6-1-77	3.6	58.0	112.0	33.8
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Mar.	6-10-77	1.43	1.46	1.46	1.48
Manufacturing	Apr.	6-1-77	1.56	1.52	1.62	1.61
Trade	Mar.	6-10-77	1.33	1.34	1.33	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Apr.	6-1-77	.632	.635	.631	.622
Retail sales, total ($ bil.)	May	6-10-77	60.0	.7	3.1	13.5
GAF	May	6-10-77	14.6	.8	3.9	13.6
Auto sales, total (mil. units) 2/	May	6-6-77	11.7	.1	8.9	16.4
Domestic models	May	6-6-77	9.1	-1.8	2.7	6.9
Foreign models	May	6-6-77	2.6	7.6	38.6	70.8
Plant & equipment expen. ($ bil.) 2/	1977 3/	6-7-77	135.34	---	---	12.3
All industries	QII'77 3/	6-7-77	134.46	3.3	---	13.8
	QIII'77 3/	6-7-77	136.91	1.8	---	11.7
	QIV'77 3/	6-7-77	139.08	1.6	---	11.1
Capital appropriations, mfg.	QI'77	6-1-77	14,685	-2.6	---	29.5
Housing starts, private (thous.) 2/	Apr.	5-17-77	1,875	-11.3	35.5	35.4
Leading indicators (1967=100)	Apr.	5-27-77	130.6	.5	3.2	6.2

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Planned-Commerce June Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Aggregate economic activity evidently has continued to expand rapidly. Retail sales, production, and employment showed further appreciable gains in May. Residential construction and inventory accumulation appear to be providing strong support to second quarter activity. Business fixed investment spending also appears to be moving up briskly at present, although new survey data imply a slower rate of growth as the year progresses. On the price side, food price increases have continued at an unusually rapid rate, and energy items are still rising sharply.

Industrial production is tentatively estimated to have increased 1.1 per cent in May--the fourth successive large monthly increase. As has been the case since March, output increases were widespread among materials and final products other than autos. Gains were particularly sharp in business equipment, construction supplies, business supplies, and steel. Auto output declined somewhat for the second successive month as assemblies edged down slightly again in May. Assemblies are scheduled to increase in June.

Reflecting the recent rapid growth in output, capacity utilization for total manufacturing and also for the materials component rose to about 83 per cent in May--significantly above the 80 per cent rates that characterized the fall and winter. The current average utilization rate is 10 percentage points below previous peaks and imported materials appear to be readily available at competitive prices.

INDUSTRIAL PRODUCTION
(Per cent change from preceding comparable period; based on seasonally adjusted data)

	1976	1977			
	IV 1/	I 1/	Mar.	Apr.	May
Total	2.8	5.3	1.5	.8	1.1
Final products	6.4	7.0	.9	.6	1.0
Consumer goods	7.5	6.2	1.4	.0	.4
Business equipment	7.2	10.1	.9	1.6	1.8
Intermediate products	2.9	8.3	.1	.8	1.3
Materials	-2.4	3.1	2.3	1.0	1.2
Durable goods	-6.9	1.6	3.0	1.7	1.9
Nondurable goods	1.1	6.1	1.5	.8	.7
Energy	5.4	1.3	.0	-.2	.2

1/ Per cent changes at compound annual rates.

CAPACITY UTILIZATION RATES
(Per cent, seasonally adjusted)

	1973		1975					
Series	Annual Average	Peak Month	Annual Average	Trough Month	1976 QIV	1977 QI	April	May
Manufacturing	87.5	88.0	73.6	69.6	80.6	81.0	82.2	83.0
Primary Processing	92.4	93.6	73.4	67.8	81.7	81.5	83.7	
Advanced Processing	84.9	85.4	73.7	70.5	79.9	80.6	81.5	
Materials, total	92.4	93.1	73.6	69.7	80.2	80.1	82.0	83.0
Durable Goods	91.5	92.5	67.8	64.3	76.5	76.2	78.3	
Raw Steel	100.5	106.8	77.4	69.4	76.8	73.5	83.4	87.0
Nondurable Goods	93.6	94.6	76.6	67.8	84.4	84.8	87.1	
Textile	93.2	94.4	74.6	58.0	79.4	78.6	80.5	
Paper	98.7	100.5	79.8	71.8	88.1	89.1	92.5	
Chemical	92.6	93.8	73.8	64.7	83.1	83.5	85.9	
Energy	93.3	94.6	85.4	82.7	84.4	84.3	84.4	

Labor market data also continued to show strength in May. Nonagricultural payroll employment grew 185,000 over the month, somewhat below the unusually rapid pace since last October. All of the major components of payroll employment showed growth in May, but reflecting recent gains in output, over one-third of the gain was concentrated in manufacturing. Reflecting increases in the durables sector, the factory workweek in May returned to the March level of 40.4 hours after declining .2 of an hour in April.

The unemployment rate was virtually unchanged in May at 6.9 per cent, as expansion of the labor force about matched gains in employment. In recent months, continued rapid growth in the labor force among women and teenagers has been bolstered by a slight acceleration among males aged 25-54. Reductions in joblessness over the past year have been entirely among workers who lost their last job--a decline of nearly half a million. Unemployed new entrants and reentrants have increased by about a quarter of a million over the year.

Personal income gains slowed in April from the advanced first quarter rate. Transfer payments were unchanged as a speedup in veterans' life insurance payments offset the drop in earned income tax credits,1/ and, therefore, growth of all nonwage income was

1/ Federal tax law provides a credit for low-income families with children, equal to 10 per cent of earned income up to a maximum of $400; where the credit exceeds any tax owed, the Federal Government pays the difference to the family.

MONTHLY CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Average monthly change		Recent Months		
	Apr. 76 to Oct. 76	Oct. 76 to May 77	Feb. 77 to Mar. 77	Mar. 77 to Apr. 77	Apr. 77 to May 77
Establishment survey					
Total nonagricultural	85	282	571	210	187
(Strike adjusted)	(100)	(269)	(597)	(216)	(193)
Manufacturing	-11	87	171	77	66
Durable	0	61	140	22	53
Nondurable	-12	26	31	55	13
Construction	-6	38	114	76	13
Trade	27	56	122	5	20
Services and finance	59	72	103	28	49
State and local government	13	15	23	25	29
Household survey					
Total	68	381	513	548	385
Nonagricultural	83	371	487	404	259

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977	1976	1977	
	QI	QII	QIII	QIV	QI	May	Apr.	May
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.3	7.0	6.9
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.6	5.0	5.3
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.8	7.0	6.6
Teenagers	19.2	18.8	18.8	19.1	18.6	18.5	17.8	17.9
Household heads	5.0	4.9	5.3	5.3	4.8	4.9	4.4	4.5
Married men	4.1	4.1	4.4	4.4	3.9	4.1	3.6	3.6
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.9	6.5	6.5
Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.2	7.0	6.8
1975 factors	7.8	7.5	7.6	7.9	7.6	7.5	7.1	7.1

PERSONAL INCOME
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976				1977			
	QI	QII	QIII	QIV	QI	Feb.[1]	Mar.[1]	Apr.[1]
Current dollars								
Total personal income	10.1	9.5	7.3	10.7	12.4	19.1	18.3	9.0
Nonagricultural income	12.6	7.8	9.2	11.2	11.4	18.5	18.2	9.4
Wage and salary disbursements	12.6	9.4	7.8	10.7	11.8	17.4	17.9	12.2
Private	14.1	10.1	8.2	10.5	13.4	20.6	21.0	13.6
Manufacturing	18.0	10.9	5.7	8.6	15.8	22.2	26.6	12.1
Government	7.2	7.1	6.7	11.5	6.2	5.4	6.0	7.2
Nonwage income	7.2	9.3	6.3	10.7	14.6	21.2	18.7	3.7
Transfer payments	14.1	-2.3	10.9	9.0	13.2	20.5	20.7	0
Dividends	11.7	16.7	12.1	28.6	-1.1	19.5	16.0	9.4
Constant dollars[2]								
Total personal income	4.7	4.4	1.5	6.1	3.7	7.4	10.8	-0.4
Nonagricultural income	7.1	2.8	3.3	6.6	2.8	6.9	10.7	-0.1
Wage and salary disbursements	7.0	4.4	2.0	6.1	3.2	5.7	10.4	2.8
Memorandum:								
Real disposable per capita income	5.4	4.0	-.1	2.5	2.6			

1/ Per cent change at annual rate, not compounded.
2/ Deflated by CPI, seasonally adjusted.

considerably smaller than during the first quarter. Wage and salary disbursements, which grew more rapidly in April than for the first quarter as a whole, should be strong again in May reflecting further growth of employment and hourly earnings.

Gains in income and employment continue to support strong increases in consumption. Retail sales excluding autos and nonconsumption items increased .7 per cent in May to a level 3.4 per cent above the first quarter average; the sales increase in the second quarter is likely to be the largest since early 1973. For the month, unusually large percentage increases were reported for apparel and food, with the latter mainly reflecting recent large price increases.

Total unit auto sales in May remained at the 11.7 million unit annual rate of April. Domestic units, which sold at a 9.1 million rate last month, accelerated to a 10.1 million unit annual rate during the first 10 days of June. Sales of small domestics rose somewhat in May possibly a manifestation of the heightened interest in fuel economy. Reports continue to indicate that shortages of selected intermediate and large cars have curtailed domestic sales. Sales of imports rose to a 2.6 million unit rate in May, setting a new record for the third successive month. Recent increases in demand for foreign autos have been attributed to renewed interest in energy efficient cars and aggressive marketing tactics by foreign car dealers.

Consumer sentiment according to the May Michigan Consumer Survey continued at the relatively high level of the preceding six months.

RETAIL SALES

(Per cent change from preceding comparable period; based on seasonally adjusted data)

	1976	1977				
	QIV	QI	QI-May	Mar.	Apr.	May
Total Sales	3.5	3.7	3.2	2.3	.1	.7
(Real)1/	2.6	1.6	n.a.	.2	-.8	n.a.
Total less auto and nonconsumption items	3.2	1.8	3.4	1.2	1.1	.7
GAF	4.3	.1	4.3	1.6	1.5	.8
Durable	3.9	7.3	3.1	4.7	-1.7	.5
Auto	4.3	11.0	1.6	5.4	-3.6	.7
Furniture and appliances	4.1	1.6	3.7	1.7	0.3	0.3
Nondurable	3.3	2.0	3.3	1.1	1.0	.8
Apparel	1.8	-0.7	0.8	-2.4	-0.5	1.5
Food	2.3	1.4	5.0	1.7	1.2	1.6
General merchandise	5.1	-0.1	5.4	2.6	2.4	0.8
Gasoline	4.8	2.7	3.4	-0.0	2.5	0.9

*Deflated by all commodities SA consumer price index.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976			1977				
	QII	QIII	QIV	QI	Feb.	Mar.	Apr.	May
Total	10.3	10.2	10.0	11.1	10.7	12.2	11.7	11.7
Imports	1.4	1.6	1.7	1.8	1.8	2.0	2.4	2.6
Domestic	8.9	8.6	8.3	9.3	8.9	10.1	9.3	9.1
Large	5.4	4.9	5.2	6.2	5.9	6.8	6.0	5.7
Small	3.4	3.7	3.1	3.1	3.1	3.3	3.2	3.3

NOTE: Parts may not add to the total because of rounding.

The index of sentiment--a composite of five questions on business conditions, personal financial situation, and market conditions for durable goods--edged up to a level slightly surpassing the previous high in September 1976. There was a sharp increase in reports by households of "good news" such as advances in personal income. Moreover, a high proportion of the respondents thought it was a good time to buy houses, automobiles, and major appliances. However, there were indications that respondents expect a worsening of inflation.

Inventory accumulation continued to add support to economic activity in April. Book value of manufacturing inventories rose at a $19.1 billion annual rate, substantially above the $11.2 billion dollar rate in March and the first quarter as a whole. The April growth in these stocks was about equally split between durables and nondurables. Materials and supplies, work-in-process, and finished goods stocks all rose in April, in contrast to March when work-in-process and finished goods stocks fell. The manufacturing inventory-sales ratio, which recently has been low by historical standards, rose somewhat in April, but this primarily reflected a decline in shipments. (If shipments had risen at the average pace recorded over the past year, the inventory-sales ratio would have edged off further.) Wholesale trade inventories were accumulated at an $8.8 billion annual rate in April, somewhat below the average rate of the first quarter but well above the average for 1976.

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book values; billions of dollars)

	1975	1976				1977		
	QIV	QI	QII	QIII	QIV	QI	Mar.	Apr.
Manufacturing and trade	-.4	23.1	31.5	29.6	10.3	32.8	40.1	n.a.
Manufacturing	.6	7.5	14.2	15.4	6.5	11.2	11.2	19.1
Durable	-4.4	1.7	6.8	6.8	6.4	7.8	5.6	9.2
Nondurable	5.0	5.8	7.5	8.6	.0	3.3	5.6	9.9
Trade, total	-1.0	15.6	17.3	14.2	3.9	21.6	28.9	n.a.
Wholesale	-2.0	5.1	9.0	4.3	1.6	9.7	10.7	8.8
Retail	1.0	10.5	8.3	9.9	2.2	12.0	18.2	n.a.
Auto	-.9	1.1	.1	4.8	1.3	2.2	4.8	n.a.

INVENTORY RATIOS

	1974	1975	1976		1977		
	QI	QI	QIII	QIV	QI	Mar.	Apr.
Inventory to sales:							
Manufacturing and trade	1.50	1.66	1.53	1.51	1.47	1.43	n.a.
Manufacturing	1.65	1.91	1.67	1.65	1.58	1.52	1.56
Durable	2.04	2.43	2.04	2.04	1.93	1.82	1.91
Nondurable	1.22	1.36	1.26	1.24	1.20	1.18	1.18
Trade, total	1.35	1.42	1.38	1.36	1.36	1.33	n.a.
Wholesale	1.12	1.25	1.22	1.22	1.21	1.19	
Retail	1.53	1.56	1.51	1.47	1.47	1.43	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.519	.579	.640	.632	.635	.635	.632

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
(Per cent change from preceding comparable period;
based on seasonally adjusted data)

	1976 QII	1976 QIII	1976 QIV	1977 QI	1977 Mar.	1977 Apr.	Apr. 76 to Apr. 77
Contracts and orders for plant & equip.[1/]							
Current dollars	-1.9	1.6	7.5	5.9	-.4	9.3	27.6
1972 dollars	-2.6	.2	6.3	4.8	-.5	9.4	20.4
New orders received by manufacturers							
Total durable goods							
Current dollars	5.5	-.8	6.0	5.4	7.5	-.8	17.1
1967 dollars[2/]	4.4	-2.3	3.5	3.7	6.7	-1.1	9.2
Nondefense capital goods							
Current dollars	5.6	5.8	3.4	6.0	2.3	1.7	19.5
1967 dollars[2/]	4.5	4.4	1.6	4.4	1.9	1.3	12.9
Construction contracts for commercial and industrial buildings[3/]							
Current dollars	-4.0	1.6	16.8	.0	26.3	-10.2	25.8
Square feet of floor space	8.0	-4.9	4.8	8.5	31.6	-17.2	5.8

1/ The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuildings (e.g., electric utilities, pipelines, etc.)

2/ FR deflation by appropriate WPI.

3/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

Recent commitments data seem to suggest that capital spending will continue to grow vigorously in the near term. Growth in contracts and orders for plant and equipment remained strong in April, rising 9.3 per cent to a level 8.1 per cent above the first quarter average. In real terms, this series is at its highest level since July 1974. Underlying the April performance was another large rise in nondefense capital goods orders, some fall off in contracts for nonresidential buildings following a sharp gain in March, and a substantial bounceback in nonbuilding contracts following a steep decline in March. Manufacturers' newly approved capital appropriations, which usually lead spending by about a year, edged off about 2-1/2 per cent in the first quarter of 1977, but were still some 30 per cent above the first quarter of 1976 and 16 per cent above the average for 1976. Consistent with recent capital spending surveys, appropriations of durable producers are showing more strength than those of nondurable producers.

On the other hand, recent survey data suggest businesses are planning only small increases in capital spending in the last half of this year with the slowing concentrated in electric utilities and commercial establishments. The May Commerce survey of anticipated plant and equipment expenditures indicates that business is planning a 12.3 per cent increase for 1977. This represents an upward revision of 0.6 percentage points--concentrated almost wholly in manufacturing--from the February Commerce survey, a considerably smaller upward revision of

SURVEY RESULTS OF ANTICIPATED PLANT AND EQUIPMENT SPENDING FOR 1977
(Per cent increase from 1976)

	Actual Increase 1976	McGraw-Hill Nov. 1976	McGraw-Hill Feb. 1977	McGraw-Hill Apr. 1977	Commerce 1/ Dec. 1976	Commerce 1/ Feb. 1977	Commerce 1/ May 1977
All Business	6.8	13.0	14.9	17.5	11.3	11.7	12.3
Manufacturing	9.4	15.4	16.7	19.4	12.5	12.7	14.2
Durables	8.4	22.6	23.1	26.3	12.2	13.5	15.9
Nondurables	10.3	9.4	11.6	13.8	12.7	12.1	12.7
Nonmanufacturing	4.9	11.0	13.4	16.1	10.4	10.9	10.9
Mining	5.4	10.1	25.1	22.0	11.0	7.2	10.3
Railroads	-1.2	18.9	23.0	23.0	10.5	.3	6.8
Nonrail Transp.	-1.8	8.3	25.9	6.5	-13.7	-19.3	-16.0
Electric Utilities	10.6	12.0	11.0	21.0	13.5	17.0	15.5
Gas Utilities	10.5	17.1	22.0	34.0	17.2	23.1	26.2
Communication	4.4	11.0	16.0	16.0	14.4	13.2	15.3
Commercial and Other	1.9	9.0	6.0	9.0	9.5	11.0	8.4

1/ Commerce results are corrected for systematic bias. On an unadjusted basis the survey showed an 11.7 per cent increase in December, a 14.2 per cent increase in February, and a 13.7 per cent increase in May.

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS
(Seasonally adjusted, quarterly rate, per cent changes)

	1976				1977	76 QI
	QI	QII	QIII	QIV	QI	to 77 QI
Manufacturing	-11.9	10.1	-7.6	30.7	-2.6	29.5
Ex. Petroleum	1.8	27.5	-16.2	19.4	.8	28.5
Durables	18.5	33.3	-12.6	5.1	18.4	45.1
Nondurables	-25.9	-7.0	-2.3	54.9	-16.1	18.0
Ex. Petroleum	-14.2	19.7	-21.5	42.8	-20.4	6.8
Petroleum	-36.8	-41.0	47.3	71.5	-11.1	32.4

1/ Conference Board Survey of 1000 largest manufacturing companies as ranked by total assets.

plans than reported in the most recent McGraw-Hill survey. In the first quarter, actual spending exceeded the level anticipated in the previous Commerce survey for the first time in two years. Such a relationship between actual and anticipated expenditures tends to be associated with accelerating growth in capital spending, rather than the progressively smaller increases envisioned by the May Commerce survey.

Residential investment is showing continued strength in the second quarter. Total private housing starts were at a 1.88 million unit rate in April, down 11 per cent from March but still 6 per cent above the average of the preceding two quarters. Single-family starts were down somewhat from March but were well above those in the first quarter when they were at the highest rate since early 1973. In the more volatile multifamily sector, starts in April declined 4 per cent from the first quarter rate. However, declining vacancy rates and a recent resurgence in nonresidential mortgage lending commitments by life insurance companies may be reflected in a further recovery of multifamily building activity.

Combined sales of new and existing homes in April were a bit below the first quarter average. In California, a considerable number of purchases reportedly have been made in hopes of short-term price appreciation. In an attempt to curb such speculation, the Federal Home Loan Bank of San Francisco raised the interest rate by 1 per cent on most new and some outstanding advances to member saving

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

	1976			1977			Per cent change[3/] from:	
	QII	QIII	QIV	QI[1/]	Mar.[1/]	Apr.[2/]	Month ago	Year ago
Single & Multifamily								
Permits	1.13	1.34	1.53	1.52	1.71	1.53	-10	+42
Starts	1.44	1.57	1.77	1.77	2.11	1.88	-11	+35
Under construction[4/]	1.06	1.11	1.19	1.24	1.24	1.28	+ 3	+20
Completions	1.33	1.37	1.39	1.59	1.71	1.51	-11	+19
Single-family								
Permits	.81	.89	1.04	1.07	1.21	1.05	-13	+31
Starts	1.10	1.19	1.28	1.32	1.52	1.44	- 5	+35
Under construction[4/]	.61	.64	.69	.74	.74	.75	+ 3	+26
Completions	.99	1.05	1.05	1.19	1.23	1.20	- 3	+21
Multifamily								
Permits	.32	.45	.49	.45	.50	.48	- 4	+73
Starts	.34	.39	.49	.45	.59	.43	-27	+37
Under construction[4/]	.46	.47	.51	.51	.51	.52	+ 3	+13
Completions	.34	.32	.35	.39	.47	.31	-34	+12
Mobile home shipments	.24	.24	.26	.27	.28	.25	- 8	+ 7

1/ revised

2/ preliminary

3/ Per cent changes based on latest available data.

4/ Seasonally adjusted, end of period.

HOME SALES AND PRICES
(Sales, in thousands of units, at seasonally adjusted annual rates; prices in thousands of dollars)

	1976		1977		
	QIII	QIV	QI	Mar.	Apr.
Sales					
New homes					
U.S.	659	743	847	827	726
West as per cent of U.S.	30.6	33.3	39.2	n.a.	n.a.
Existing homes					
U.S.	3,093	3,333	3,227	3,410	3,300
West as per cent of U.S.	19.5	20.0	20.2	20.2	17.9
Average prices					
New homes					
U.S.	48.1	50.3	52.3	52.4	55.1
West as per cent of U.S.	108	109	112	n.a.	n.a.
Existing homes					
U.S.	43.4	42.9	45.1	45.5	46.5
West as per cent of U.S.	118	123	126	126	129

and loan associations. In addition, some S&L's in that region have tightened lending terms on mortgages made to borrowers identified as non-occupants. 2/

Spending by State and local governments has been bouncing back from the weather depressed first quarter level. Between February and May payroll employment in this sector rose 77,000. So far this spurt has only reversed the declines seen earlier this winter; total hiring over the past twelve months remains well below historical trends. The value of construction put-in-place also has been increasing sharply in recent months. The outlook for further growth of expenditures was enhanced by the recent passage of legislation that will boost spending for Federally funded public employment jobs and countercyclical public work projects.

The Commerce Department revised first quarter estimates of Federal receipts and expenditures (NIA basis) now show a substantial drop in the deficit from $59.3 billion in 1976-IV to $41.3 billion in 1977-I. This decline is due in part to the shortfall in Federal spending that occurred earlier this year. The shortfall in expenditures from the Administration's February NIA estimates appears to have been concentrated in the grants ($5.2 billion) and in the purchases categories ($3.7 billion). In addition, receipts in 1977-I have been revised upward substantially, mainly because of a one time bulge in estate and gift tax payments that resulted from the passage of the Tax Reform Act of 1976.

2/ Additional information about possible real estate speculation will be included in the Redbook.

<u>Consumer prices</u> rose substantially more in April than in March as the food component of the Index rose 1-1/2 per cent (not an annual rate) over the month. A large portion of this rise was due to a 13 per cent (not at an annual rate) boost in coffee prices. Prices of food away from home, meats, and cereals, also moved up sharply. Although fruits and vegetable prices should show some declines as the freeze-related supply shortages continue to ease, the immediate outlook for consumer food prices does not seem bright; wholesale price data for May indicate a continued rise in prices of processed foods, especially for meats.

Outside of the food area, consumer price increases in April were somewhat more moderate than in the first quarter. However, prices for energy items accelerated as rising gasoline prices continue to reflect the earlier OPEC price increase.

Prices of industrial commodities at wholesale, rose 0.4 per cent in May, somewhat below the average rate of increase since the middle of 1976. However, the fuels and power group continued to advance at nearly a 20 per cent rate. Excluding the energy group, industrial prices rose at only a 3.3 per cent annual rate. The index did not capture the recently announced steel price increases, which are scheduled to take effect on June 19.

RECENT CHANGES IN CONSUMER PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 March	1977 April
All items	100.0	7.0	5.0	4.8	10.0	7.4	9.4
Food	23.7	6.5	.2	.8	14.6	7.1	17.9
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	5.2	4.4
Services	37.5	8.1	8.5	6.3	9.8	9.6	9.5
Memoranda:							
All items less food and energy2/ 3/	68.9	6.7	6.9	5.5	8.3	6.3	6.9
Petroleum products2/	4.5	10.1	-2.2	9.7	7.1	9.1	10.8
Gas and electricity	2.9	14.2	9.8	15.4	10.7	16.5	8.7

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

Wage rate increases over the last seven months, a time in which employment has grown rapidly, have shown only modest acceleration, despite a large rise in January when the minimum wage was increased. Since October, the average hourly earnings index has risen at a 7.3 per cent annual rate compared with the 6.8 per cent rise over the preceding 12 months. Reflecting the shifting mix of employment toward higher wage industries and the growth in overtime hours, gross average hourly earnings have risen at an 8.8 per cent annual rate over the past seven months.

RECENT CHANGES IN WHOLESALE PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)[1]

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 Apr.	1977 May
All commodities	100.0	4.2	3.9	5.3	10.2	13.7	4.9
Farm and food products	21.6	-.3	1.0	-3.3	19.3	34.3	3.0
Industrial commodities	78.4	6.0	5.0	7.8	7.9	7.5	5.0
Materials, crude and intermediate[2]	49.1	5.4	5.2	8.3	9.1	6.5	4.1
Finished goods							
Consumer nonfoods	18.7	6.7	3.3	6.4	8.5	8.5	5.6
Producer goods	12.1	8.2	5.8	7.1	5.3	6.6	6.6
Special groups:							
Industrial commodities excluding fuels and related products and power	67.7	5.0	5.8	6.4	6.4	6.0	3.3
Consumer foods	10.4	5.5	-1.3	-3.1	12.5	29.6	25.2

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.

HOURLY EARNINGS INDEX[1/]
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 QIV	1977 QI	1977 Apr.[2/]	1977 May [2/]	May 76 to May 77
Private nonfarm	6.9	6.7	7.1	6.4	8.2	7.6	5.7	6.9
Construction	5.6	7.4	5.3	3.6	5.7	6.3	-2.2	3.8
Manufacturing	7.4	6.4	9.2	6.5	7.9	6.8	8.7	7.9
Trade	5.2	5.7	6.7	8.2	9.4	7.9	4.1	7.4
Transportation and public utilities	9.1	9.3	6.6	4.7	6.1	11.3	2.8	5.5
Services	8.3	6.6	4.8	7.8	11.1	6.2	6.5	7.2

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Monthly change at an annual rate, not compounded.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
		$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	May	34.73	1.8	3.9	3.2
Nonborrowed reserves	May	34.52	-2.8	2.3	2.9
Money supply					
M1	May	321.6	1.1	9.0	6.0
M2	May	765.3	4.6	8.7	10.0
M3	May	1286.4	6.9	9.5	11.9
Time and savings deposits (less CDs)	May	443.6	6.8	8.4	13.1
CDs	May	62.3	.7 2/	-1.0 2/	-6.3 2/
Thrift deposits (S&Ls + MSBs + Credit Unions)	May	521.1	10.5	10.7	14.8
Bank credit (end of month)	May	823.4	10.3	11.5	10.0

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	6/8/77	5.31		.68	-.13
Treasury bill (90 day)	"	6/8/77	5.04	.17	.40	-.42
Commercial paper (90-119 day)	"	6/8/77	5.46	.41	.71	-.42
New utility issue Aaa	"	6/10/77	8.11	-.21	-.19	-.60
Municipal bonds (Bond Buyer)	1 day	6/9/77	5.65	-.17	-.27	-1.21
FNMA auction yield (FHA/VA)		6/13/77	8.77	.07	.11	-.43
Dividend price ratio (common stocks)	wk endg.	6/8/77	4.63	5.20	5.90	19.90
NYSE index (12/31/65=50)	end of day	6/13/77	53.94	-.35	-2.10	-.61

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1977	Year to Date 1976
		$ billions			
Credit demands					
Business loans at commercial banks 1/	May	1.0	.5	6.8	-2.4
Consumer instalment credit outstanding 1/	April	2.7	1.4	9.3	5.1
Mortgage debt outstanding (major holders) 1/	March	7.0	5.7	17.5	15.3
Corporate bonds (public offerings)	May	1.3e	1.9	9.5e	11.9
Municipal long-term bonds (gross offerings)	May	4.2e	3.6	18.2e	14.5
Federally sponsored agcy. (net borrowing)	May	.5	-.7	2.6	.4
U.S. Treasury (net cash borrowing)	June	.6	3.8	16.6	33.4

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate credit demands have eased somewhat in recent weeks, as business borrowing has declined while the Treasury has continued redeeming bills and raising only modest amounts of new money in the coupon market. Total borrowing by State and local governments in May and June also has been reduced from April's advanced pace, despite record long-term security offerings. The increase in household mortgage and consumer instalment debt, however, evidently has continued at a substantial rate.

The slackening in overall credit demands was accompanied by a considerable slowing in the growth of the monetary aggregates in May after their exceptionally rapid expansion in April. M_1 is estimated to have increased very modestly in May and early June, and with a rise in short-term interest rates in April and May, there also has been a further moderation in the rate of expansion in the time and savings deposit component of M_2. The decline in growth rates of the monetary aggregates, together with the relative stability of the Federal funds rate over the intermeeting period, apparently have alleviated earlier concerns among market participants that the System might seek a further tightening of money market conditions. As a result of these revisions in expectations and the easing in credit demands, short-term market interest rates are now little changed from their mid-May levels, while yields on most intermediate- and long-term securities have declined.

SELECTED FINANCIAL MARKET QUOTATIONS
(Per cent)

	1976 1/		1977 2/				Change from:	
	May-June High	December Low	Apr. FOMC 19	May FOMC 17	May 31	June 14	Apr. FOMC	May FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	4.71	5.36	5.47	5.34 3/	+.63	-.02
Treasury bills								
3-month	5.53	4.27	4.52	5.00	5.03	5.01	+.49	+.01
6-month	5.93	4.50	4.75	5.25	5.23	5.19	+.44	-.06
1-year	6.32	4.62	5.00	5.46	5.42	5.38	+.38	-.08
Commercial paper								
1-month	5.65	4.48	4.63	5.25	5.38	5.25	+.62	0
3-month	5.90	4.63	4.75	5.38	5.50	5.40	+.65	+.02
Large negotiable CD's 4/								
3-month	5.95	4.60	4.75	5.35	5.50	5.38	+.63	+.03
6-month	7.00	4.71	4.90	5.75	5.75	5.60	+.70	-.15
Bank prime rate	7.25	6.25	6.25	6.50	6.75	6.75	+.50	+.25
Intermediate- and Long-term rates								
Corporate								
New AAA 5/	8.95	7.93	8.25	8.32	--	8.11p	-.14	-.21
Recently offered 6/	8.84 7/	7.84	8.16	8.32	8.28	8.21p	+.05	-.11
Municipal (Bond Buyer) 8/	7.03 9/	5.83	5.70	5.82	5.71	5.65	-.05	-.17
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.19	6.51	6.49	6.30	+.11	-.21
7-year	7.89	6.32	7.01	7.24	7.16	6.98	-.03	-.26
20-year	8.17	7.26	7.61	7.72	7.68	7.60	-.01	-.12

Stock prices	January Low	December High	FOMC Apr 19	FOMC May 17	May 31	June 14	Apr. FOMC	May FOMC
Dow-Jones Industrial	881.51	994.18 10/	938.77	936.48	898.66	922.57	-16.20	-13.91
N.Y.S.E. Composite	49.06	56.96	54.50	54.49	52.56	54.52	+.02	+.03
AMEX	86.42	107.26	112.40	114.31	112.18	115.40	+3.00	+1.09
Keefe Bank Stock 6/	520	664	622	614	607	610	-12	-4

1/ Daily average for statement week.
2/ One day quotes except as noted.
3/ Average for first 6 days of statement week ending June 15.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for year year was 1003.87 in statement week ending 9/29.

Monetary Aggregates and Bank Credit

After increasing at an unprecedented 19-3/4 per cent seasonally adjusted annual rate in April, M_1 grew at only a 1.1 per cent annual rate last month. In recent years, a large monthly increase in M_1 usually has been followed by a sharp deceleration of growth in the subsequent one or two months. For April and May combined, M_1 increased at a 10.4 per cent annual rate, well in excess of the 4.8 per cent rate registered in the first quarter. The substantial increase in the average level of M_1 this quarter may have reflected in large part increased transactions demands generated by the quickened pace of economic activity since last winter.

Expansion of the time and savings deposit component of M_2 also slowed in May, extending a trend to slower growth that began late last year. The yield advantage of these deposits over open market investments, which was reduced earlier this year by the combination of rising market interest rates and reductions in offering rates on some time and savings accounts, has been further eroded by the rise in short-term interest rates in late April and early May. The 3-month Treasury bill rate, for example, is now above the ceiling rate on savings deposits at commercial banks (Chart 1). Withdrawals of savings deposits of State and local governments, which have been especially affected by the latest change in relative yields, caused the total of business and government savings deposits to decline in May.

MONETARY AGGREGATES
(Seasonally adjusted)1/

	1976 QIII	1976 QIV	1977 QI	1977 April	1977 May	April-May	1977 through May
	Net changes at annual rates, per cent						
Major monetary aggregates							
1. M_1 (Currency plus demand deposits)	4.4	6.8	4.8	19.7	1.1	10.4	6.8
2. M_2 (M_1 plus time and savings deposits at commercial banks other than large CD's)	9.1	12.2	9.4	13.0	4.6	8.8	8.4
3. M_3 (M_2 plus all deposits at thrift institutions	11.4	14.2	11.0	12.1	6.9	9.6	9.8
4. Adjusted bank credit proxy	3.9	8.2	5.4	7.1	-1.1	3.0	3.0
Bank time and savings deposits							
5. Total time and savings deposits at commercial banks	7.0	11.5	11.3	6.0	7.6	6.8	7.9
6. Other than large negotiable CD's	12.8	16.3	12.7	8.5	6.8	7.7	9.6
7. Savings deposits	13.2	26.7	20.5	8.6	5.1	6.9	12.0
8. Individuals2/	13.0	19.4	14.6	8.8	6.8	7.8	11.9
9. Other3/	16.9	160.5	100.6	17.1	-11.3	2.8	12.4
10. Time deposits	3.2	1.5	4.9	3.7	9.4	6.6	5.0
11. Small time4/	23.9	27.6	9.4	15.1	8.2	11.7	10.4
Deposits at nonbank thrift institutions5/							
12. Total	14.8	17.3	13.4	10.5	10.5	10.5	11.7
13. Savings and loan associations	15.9	18.8	14.7	12.0	12.2	12.2	13.0
14. Mutual savings banks	11.4	12.8	9.2	6.1	6.5	6.3	7.4
15. Credit unions	16.1	18.8	16.2	12.7	9.5	11.1	14.4
Memoranda:	Average monthly changes, $ billions						
16. Total U.S.Govt. deposits	0.7	-0.3	0.0	-0.4	-0.2	-0.1	-0.1
17. Negotiable CD's	-2.4	0.1	-0.4	-0.6	0.7	0.1	-0.2
18. Nondeposit sources of funds	-0.1	0.3	-0.5	0.0	-0.1	0.0	-0.3

1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of business, governments, and others, not seasonally adjusted. (Note: the base level for these deposits was very low.)
4/ Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.

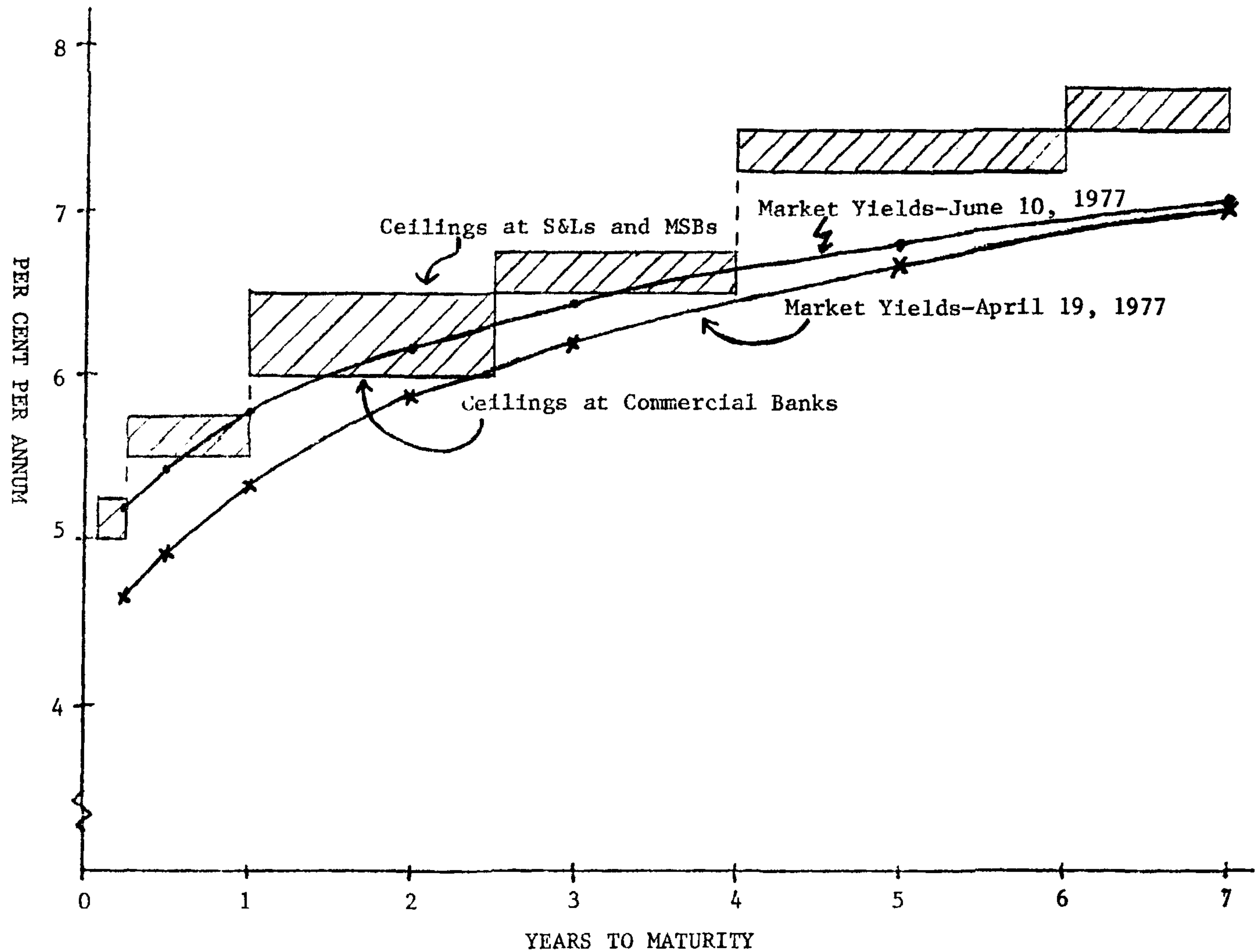
Individual savings and small time accounts continued to grow during the month, but at slower rates than in April. According to press reports, the recent decline in deposit inflows has prompted some banks and thrift institutions to rescind previous reductions in offering rates, returning them to ceiling levels.

In contrast to the experience at commercial banks, inflows into time and savings deposits at savings and loan associations, mutual savings banks, and credit unions in May were maintained at their March and April annual rate of 10.5 per cent. The relative insensitivity of these flows to recent increases in market interest rates may be partly attributable to the limited importance of interest-sensitive business and government deposits, and to the higher rates thrifts are allowed to offer on their accounts. For example, the 3-month Treasury bill rate remains below the ceiling rate on savings accounts at S&L's and MSB's.[1/] The recent pace of deposit growth, however, is well below rates prevailing through most of last year and into this year, indicating that thrifts, like banks, have been affected by rising interest rates and stronger consumption expenditures in 1977.

Commercial bank credit expanded at a 10.3 per cent annual rate in May--down from the 14.0 per cent rate in April, but close to the average rate of expansion in the first five months of the year.

1/ The ceiling rate on deposits of Federally chartered credit unions is set at 7 per cent.

MARKET YIELD CURVES AND DEPOSIT RATE CEILINGS



This slowing was due almost entirely to a reduced pace of bank lending, especially to businesses. Although the growth in total investments was little changed from April, the composition of security acquisitions was considerably altered; holdings of Treasury issues rose, more than reversing April's decline, while net purchases of other securities moderated.

With inflows of deposits included in the monetary aggregates weakening in May, a sizable proportion of earning asset growth at banks was financed by an increase in managed liabilities. Negotiable CD's outstanding at large banks rose $1.6 billion over the month, after declining $3.0 billion since the end of last year. During the month, banks stepped up their use of nonreservable liabilities, borrowing an additional $3 billion, mostly through Federal funds purchases and securities RP's with the nonbank public.

Business Credit

The growth of business loans at commercial banks fell to a 6.4 per cent annual rate in May, less than half the rate of expansion in April. The slower growth was centered at smaller banks, as loans at large banks expanded at a 5 per cent annual rate, after remaining essentially unchanged for two months. Over the first five months of 1977, total business loans at banks, after allowance for changes in bank holdings of acceptances, expanded at a 12.1 per cent annual rate, well above the rate of increase in the fourth quarter of last

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)[1/]

	1976		1977			5 months
	QIII	QIV	QI	April	May	ending May
Total loans and investments[2/]	7.2	11.2	9.5	14.0	10.3	10.7
Investments	4.3	5.6	10.6	12.9	12.2	11.5
Treasury securities	0.8	10.1	25.9	-9.3	21.0	18.0
Other securities	6.6	2.7	0.5	28.3	6.3	7.3
Total loans[2/]	8.5	13.7	9.1	14.6	9.5	10.3
Business loans[2/]	3.9	12.0	8.1	13.6	6.4	9.0
Real estate loans	9.3	9.9	12.6	14.1	13.1	13.2
Consumer loans	10.8	11.0	9.5	18.1	n.a.	n.a.
Memoranda:						
1. Commercial paper issued by nonfinancial firms[3/]	-38.7	28.9	15.0	107.0	26.5	37.2
2. Business loans less bankers acceptances held by banks	1.1	8.2	13.0	12.6	8.2	12.1
3. Business loans less bankers acceptances held by banks plus nonfinancial commercial paper	-1.7	9.6	13.1	19.1	9.6	13.8
4. Total business loans plus nonfinancial commercial paper	0.9	13.1	8.6	19.9	7.9	10.9

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month. With the exception of consumer loans, data have been revised to reflect benchmarking against the December 31, 1976 Call Report. A description of the revision will be available in the Greenbook Supplement.
2/ Loans include outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiearies of holding companies.
3/ Measured from end-of-month to end-of-month.

n.a.Not available.

year.[1/] This pick-up in loan volume relative to last year may reflect in part a greater willingness by banks to make business loans. The results of the May 15 Bank Lending Practices Survey indicate that banks continue to ease non-price terms of lending. Furthermore, banks have allowed the spread between the prime rate and short-term open market rates to narrow by raising the prime rate generally only 50 basis points to 6-3/4 per cent, while yields on private short-term instruments have increased about 75 basis points.[2/]

Nonfinancial corporations also decreased the amount of new money they raised in the commercial paper market in May. The growth during the month in total business short-term credit--measured by bank loans to businesses (net of bankers' acceptances) plus commercial paper issued by nonfinancial corporations--was half that in the previous month. The 14-1/4 per cent average increase (annual rate) in April and May, however, is still slightly above the first quarter rate of expansion in this total and well above the fourth quarter rate. When account is taken of finance company loans to businesses--primarily

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1/ In responses to the Bank Lending Practices Survey taken on May 15, more than one-half the banks surveyed indicated moderately stronger loan demand, compared to about one-fourth of the banks participating in the February Survey.

2/ In early June, Citibank revised its prime rate formula from 150 basis points to 125 basis points over the 3-week average of the 90-119 day commercial paper rate. Morgan Guaranty Bank reduced its prime rate from 6-3/4 to 6-1/2 per cent on June 13.

for purchases of autos and commercial vehicles and for the financing of dealer inventories of these products--the rise in short-term business borrowing in 1977 appears even stronger. Net credit extensions by these lenders to nonfinancial businesses averaged $800 million in the first four months of the year, as compared with only $300 million in the last three months of 1976.

A portion of the pick-up in business short-term credit demands this year probably has reflected a greater total need for external financing, stemming in part from the strengthening in investment spending, especially for inventory accumulation. In addition, many corporations seem to have completed their balance sheet restructuring and therefore have been relying more on short-term debt to meet financing requirements.

Gross issues of publicly offered bonds totaled only $1.3 billion in May, considerably under the $2.1 billion pace of the first four months of 1977. An unusually small slate of new bond issues by industrial corporations and, to a lesser extent, a reduced volume of offerings by utilities accounted for the relatively low level of public bond offerings last month. Financial concerns, on the other hand, stepped up their longer-term issuance from April's relatively low level.[1/] With the volume of public bond offerings in June currently

1/ Contributing to the May increase in debt offerings by financial concerns was a $200 million offering of mortgage-backed bonds by a large savings and loan association. Regulations permitting mortgage-backed bonds by S&L's were enacted by the FHLB Board in 1976. The May issue was only the third offering of mortgage-backed bonds by S&L's, but two additional offerings, totaling $300 million, are scheduled in June.

PUBLICLY OFFERED CORPORATE BONDS
(Billions of dollars)

Year	Total	Industry: Mfg. & Other Industrial	Utilities: EG&W.	Utilities: Comm.	Utilities: Trans.	Financial: Fin. Cos.	Financial: Other
1970	24.4	9.6	7.4	4.9	0.6	1.6	0.3
1971	23.3	8.8	6.7	4.1	0.5	2.6	0.6
1972	17.4	4.2	5.2	3.0	0.7	2.7	1.6
1973	13.2	2.0	4.7	3.2	0.4	1.9	1.0
1974	25.9	8.9	8.2	3.4	1.3	2.6	1.5
1975	32.6	16.9	7.4	2.9	1.9	2.7	0.8
1976	26.5	9.9	6.0	2.5	1.8	4.6	1.7
1977-H1 1/	23.0	7.8	5.0	4.4	0.8	3.4	1.6

1/ Annual rate, not seasonally adjusted. Data for June, 1977, are estimated.

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

	1976		1977				
	Year	QIV	QIe/	Apr.e/	Maye/	Junef/	Julyf/
	Gross offerings						
Corporate securities--							
Total	4,446	4,652	3,882	3,450	3,350	4,000	3,200
Publicly offered bonds	2,204	2,184	2,148	1,800	1,300	1,800	1,500
By quality 1/							
Aaa and Aa	1,050	792	1,230	1,125	525	--	--
Less than Aa 2/	1,154	1,392	918	675	775	--	--
By type of borrower							
Utility	675	732	734	870	385	--	--
Industrial	874	805	710	750	150	--	--
Other	655	647	704	180	765	--	--
Privately placed bonds	1,317	1,615	927	1,200	1,000	1,200	900
Stocks	924	853	807	450	1,050	1,000	800
By type of issuer							
Manufacturing	186	69	105	150	50	--	--
Public utility	575	589	564	160	850	--	--
Other	163	195	138	140	150	--	--
Foreign securities--							
Total	857	816	464	745	525	--	--
Publicly offered 3/	520	598	286	600	350	825	300
Privately placed	337	218	178	145	175	--	--
State and local gov't. securities--Total	4,771	4,371	5,152	8,500	5,600	5,800	4,800
Long-term	2,948	3,053	3,565	3,500	4,200	4,200	3,500
Short-term	1,823	1,318	1,587	5,000	1,400	1,600	1,300
	Net offerings						
U.S. Treasury	4,850	5,435	4,703	-2,400	-2,500	1,300	1,500
Sponsored Federal agencies	361	647	678	5	527	970	364

1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Classified by original offering date.
e/ Estimated.
f/ Forecast.

expected to total only $1.8 billion, the rate of bond issuance in 1977 is falling well below the pace of the previous several years. Almost all major industry categories have recorded smaller volumes of offerings this year in comparison with 1976--the major exception being communication concerns. The overwhelming majority of these communication issues were Bell System offerings--a large portion of which were for the purpose of refunding outstanding higher-coupon bonds.

The light volume of new issues appears to have contributed to the downward movement of corporate bond yields in May. The Board's index of new Aaa-rated utility bond yields stood at 8.11 per cent in early June, about 20 basis points below its level at the time of the May FOMC meeting; in recent days, yields on new issues have declined somewhat further.

In contrast to corporate bond prices, stock prices--other than those of utilities--generally have declined slightly on balance since the May FOMC meeting. Since year end the Dow-Jones industrial average has fallen about 9 per cent. The weakness in this and other more broadly based industrial stock price indexes has reflected primarily the sharp price erosions in a small number of issues with relatively large market values. A re-evaluation of equities selling at above-average price-earnings multiples has been occurring for some time, but it apparently has accelerated recently. The proportion of total market value (all NYSE and AMEX issues) attributable to issues with price-earnings ratios greater than 18.0 declined from around 26 per cent at the end of December 1976, to less than 18 per cent at the end of March 1977. Meanwhile, prices of utility issues generally have continued in a rising trend since year end. In this relatively more receptive market environment, several utilities sold large new issues of stock in May, boosting total equity offerings for the month to more than $1.0 billion.

Treasury and Municipal Securities Markets

The Federal government's budget during the second quarter has moved into surplus, due to seasonal influences, and as a result the Treasury has been able to reduce its outstanding debt while achieving an increase in its cash balance over the quarter. The Treasury also has been lengthening the maturity of its debt by making large paydowns of bills, while raising only a moderate amount of new cash with issues of regular cycle notes. Between $500 and $900 million of maturing bills has been redeemed in each regular weekly and monthly auction since the May meeting; over the same period, the Treasury has rolled over a maturing 2-year note and sold $2.5 billion of new 4-year notes. As a result of these financing operations, the net decline this quarter in bills outstanding has come to $8.2 billion, and the quantity of coupon securities has risen $5.1 billion.[1/]

The reduction in Treasury demands on credit markets has helped to temper the general response of interest rates to the rise

1/ The change in bills outstanding does not include a $2.0 billion, 9-day, cash management bill sold to bridge an early June low point in the cash balance.

in the Federal funds rate since the April FOMC meeting. The decline in bill supplies, moreover, has held down the increase in bill rates relative to other market rates. Since mid-April, the 3-month bill hasrisen only 50 basis points, as much as 1/4 of a percentage point less than the increases for private instruments of the same maturity. At the same time, the modest size of new coupon issuance has helped to stabilize long-term yields.

While the volume of new corporate and Treasury bond offerings has diminished in the second quarter, issues of long-term municipal securities were at a record pace in May and are expected to remain at that level in June. As in other months this year, about one-fifth of the new offerings in May were for advance refunding purposes. A recent tightening of IRS regulations governing such operations is expected to reduce the volume of refunding issues over coming months, but apparently has not yet had an appreciable effect on bond volume.

Despite the expanded supply of municipal issues, yields in this market have tended to move down--in part because of some renewed interest on the part of commercial banks, whose holdings of tax-exempt securities had remained virtually unchanged in the first quarter. In large measure, declines in tax-exempt bond yield indexes in May, as well as earlier this year, have reflected falling yields on lower-rated issues. Changing investor attitudes toward these securities have resulted in part from improvements in the underlying financial condition of issuers. Expenses have been held down by more stringent budgetary controls, while receipts have benefitted from more generous Federal support and from rising tax revenues as the expansion in economic activity has progressed. Furthermore, investors have been encouraged by several recent court decisions protecting sources of revenue earmarked for bond repayment and prohibiting State legislatures from violating the covenants on outstanding securities. These developments have led to a continued narrowing of risk premiums in the municipal market and to recent upgradings of ratings by Moody's of a number of issues, including those of New York State, the Municipal Assistance Corporation, New York City, and New Jersey.

Mortgage and Consumer Loans

The volume of mortgage lending apparently remained quite large in May. The seasonally adjusted increase in all types of mortgage loans at commercial banks is estimated to have been $1.7 billion, around the advanced pace prevailing throughout the earlier months of the year. In addition, issues of GNMA--guaranteed mortgage-backed securities and net mortgage sales of FNMA--the major marketing outlets for mortgage companies--rose to $2 billion in May from an average of $1.5 billion in the first four months of the year. Savings and loan associations continue to be active suppliers of mortgage credit. Their outstanding mortgage lending commitments rose to a new record in April, and their holdings of mortgage loans increased by a record $4.6 billion during the month.

Average interest rates on new commitments for conventional home mortgages at savings and loan associations have edged up slightly since the May FOMC meeting to a level of 8.85 per cent and are now 20 basis points above their cyclical low in early March. In secondary mortgage markets, rates on GNMA mortgage-backed securities have declined modestly since mid-May along with bond rates, but yields in FNMA commitment auctions have risen slightly further as the volume of offerings at these auctions has been large. With government underwritten mortgages selling at an average discount of around 5 points in national secondary markets, the maximum contract rate on FHA/VA home mortgages was raised from 8.00 to 8.50 per cent, effective May 31.

The upward pressure on mortgage rates in recent months apparently has been associated in large part with strength of demand for residential mortgage credit in California. Most of the rise in average primary market home mortgage yields since March has been due to increases in the West, where rates have risen 50 basis points to 9.25 per cent. California savings and loan associations have accommodated the very high demands for loans in part by secondary market sales of mortgages, and this has accounted for much of the record volume of bidding in recent FNMA auctions of conventional loan purchase commitments.

Consumer instalment credit outstanding rose at an 18 per cent annual rate in April--only slightly below the March rate. Both extensions and liquidations of instalment debt fell a little in April. The decline in extensions was accounted for almost entirely by automobile credit, as extensions of credit on bank cards rose to a record level. With extensions declining less than sales of goods normally sold on credit, the ratio of extensions to sales rose further in April to 68.5 per cent--more than 3 percentage points above the average level of this ratio in 1976.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976[1/] QIV	1977[1/] QI	Mar.	Apr.
Total							
Change in outstandings							
Billions of dollars	9.0	6.8	16.7	18.5	26.6	32.6	31.9
Per cent	6.1	4.4	10.3	10.7	14.9	18.3	17.8
Bank share (per cent)	44.4	41.7	39.7	42.4	42.9	53.8	48.7
Extensions							
Billions of dollars	160.0	163.5	186.6	194.1	209.2	219.0	216.9
Bank share (per cent)	45.5	47.2	47.5	48.0	46.5	47.7	48.0
Liquidations							
Billions of dollars	151.1	156.6	169.8	175.6	182.6	186.4	185.0
Ratio to disposable income	15.4	14.5	14.4	14.4	14.7	15.0	14.9
Extensions/sales ratio (per cent) 2/	68.7	65.5	65.3	65.2	67.0	68.2	68.5
Automobile Credit							
Change in outstandings							
Billions of dollars	0.3	2.6	7.5	8.1	11.4	14.4	14.1
Per cent	0.7	5.2	14.2	13.6	18.8	23.7	22.8
Extensions							
Billions of dollars	43.2	48.1	55.8	57.9	63.2	67.8	65.7
Per cent of sales 3/	46.5	47.1	44.5	44.5	43.7	45.1	45.6
New car loans over 36 months as per cent of total new car loans							
Commercial banks 4/	8.8	14.0	25.4	30.7	36.3	n.a.	n.a.
Finance companies	8.6	23.5	33.9	37.4	41.5	42.9	n.a.
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	11.03	10.97	10.82
Finance companies	12.61	13.11	13.17	13.21	13.15	13.15	n.a.

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.
2/ Ratio is total instalment credit extensions divided by selected categories of retail sales: auto dealers, general merchandise, apparel, furniture and appliances.
3/ Auto sales are Census automobile dealer retail sales series, which include new and used models of both domestic and foreign makes.
4/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.
n.a.--not available.

INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGES AT SELECTED S&Ls

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	+93	11
Low	8.70	--	-17	0
1977--Jan.	8.73	-5	+51	6
Feb.	8.65	-8	+37	6
Mar.	8.70	+5	+48	2
Apr.	8.75	0	+44	11
May 6	8.78	0	--	14
13	8.83	+5	+51	11
20	8.85	+2	+51	11
27	8.85	0	--	
June 3	8.85	0	+70	
June 10	8.85	0	+74	

/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1977--High	416	278	9.13	723	422	8.79	8.08
Low	143	106	8.81	135	68	8.46	7.56
May 2	383	255	9.03	723	422	8.70	8.06
9							8.08
16	416	278	9.08	585	286	8.74	8.04
23							8.04
30							7.99
31	365	219	9.13	534	320	8.79	
June 6							7.99
June 13	211	158	9.13	188	78	8.77	7.99

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, 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 related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.

Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

U.S. International Transactions
(In millions of dollars, seasonally adjusted 1/)

June 15, 1977

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		1976 YEAR	1976 Q3	1976 Q4	1977 Q1	1977 March	1977 April
1.	Merchandise exports	114,692	29,600	29,717	29,605	10,067	10,006
2.	Merchandise imports	123,916	32,387	33,291	36,429	13,012	12,916
3.	Trade Balance	-9,224	-2,787	-3,574	-6,824	-2,945	-2,910
4.	Bank-reported private capital flows	-10,036	-1,599	-4,253	-1,860	-1,929	2,435
5.	Claims on foreigners (increase -)	-21,019	-3,372	-9,263	3,389	-2,077	-898
6.	Long-term	-2,124	-978	-480	-541	-328	-280
7.	Short-term	-18,895	-2,394	-8,783	3,930	-1,749	-618
8.	(of which on commercial banks in offshore centers 2/)	(-12,599)	(-2,286)	(-4,318)	(2,016)	(-1,349)	(-344)
9.	Liabilities to foreigners (increase +)	10,983	1,773	5,010	-5,249	148	3,333
10.	Long-term	175	74	222	96	46	-5
11.	Short-term	10,808	1,699	4,788	-5,345	102	3,338
12.	to commercial banks abroad	8,078	1,977	2,795	-4,492	-221	2,508
13.	(of which to commercial banks in offshore centers 3/)	(4,146)	(300)	(2,867)	(-3,301)	(165)	(2,807)
14.	to other private foreigners	2,719	916	1,179	351	-83	-58
15.	to int'l and regional organizations	11	-1,194	814	-1,204	406	888
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	3,026	-89	1,271	103	-1,167
17.	Other private securities transactions (net)	-7,432	-2,675	-2,102	90	85	147
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	68	21	849	203	204
19.	(of which stocks)	(853)	(-18)	(-174)	(377)	(109)	(124)
20.	U.S. net purchases (-) of foreign securities	-8,682	-2,743	-2,123	-759	-118	-57
21.	(new foreign issues of bonds and notes)	(-9,962)	(-3,074)	(-2,413)	(-1,348)	(-303)	(-148)
22.	Change in foreign official res. assets in the U.S.	13,004	1,265	6,100	4,812	2,707	3,047
23.	OPEC countries (increase +)	6,750	1,228	555	2,479	1,122	1,267
24.	(of which U.S. corporate stocks)	(1,828)	(374)	(308)	(160)	(12)	(98)
25.	Other countries (increase +)	6,254	37	5,545	2,333	1,585	1,780
26.	Change in U.S. reserve assets (increase -)	-2,530	-407	228	-388	21	284
27.	Other transactions and statistical discrepancy (net payments (-))	13,435	3,177	3,690	2,899	1,958	-1,836
28.	Other current account items	9,184	2,726	2,687			
29.	Military transactions, net 4/	91	264	148			
30.	Receipt of income on U.S. assets abroad	22,654	5,795	5,760			
31.	Payment of income on foreign assets in U.S.	-12,116	-3,011	-2,760			
32.	Other services, net	2,696	860	578			
33.	Remittances and pensions	-1,866	-446	-487			
34.	U.S. Gov't grants 4/	-2,275	-736	-552			
35.	Other capital account items	-6,645	-710	-2,353			
36.	U.S. Gov't capital, net claims 4/ (increase -)	154	-372	-95			
37.	U.S. direct investment abroad (increase -)	-5,000	-1,447	-1,593			
38.	Foreign direct investment in U.S. (increase +)	561	712	155			
39.	Nonbank-reported capital, net claims (increase -)	-2,360	397	-820			
40.	Statistical discrepancy	10,896	1,161	3,356			
MEMO:							
41.	Current account balance 4/	-40	-61	-887	n.a.	n.a.	n.a.
42.	Official settlements balance	-10,474	-858	-6,328	-4,424	-2,728	-3,331
43.	O/S bal. excluding OPEC	-3,724	370	-5,773	-1,945	-1,606	-2,064

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

3/ Represents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes grants to Israel under U.S. military assistance Acts, exports financed by those grants, and offsetting capital transactions.

*/ Less than $50,000.

Foreign exchange markets. During the past five weeks the foreign exchange value of the dollar declined by less than 1/4 per cent on a weighted average basis, despite the news of another unexpectedly large monthly U.S. trade deficit in April. The effect of the widening trade deficit on the dollar was moderated in part by an increase in U.S. interest rates relative to foreign interest rates,

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The dollar's sharpest decline was against the Japanese yen, which almost returned to its mid-April peak against the dollar, more than 8 per cent above its level last December. The yen's appreciation by nearly 2 per cent during the past five weeks reflected several developments. First, Japan's trade surplus continued to widen and Japanese officials now expect it to be almost double the previous official estimate of $7 billion for the fiscal year ending next March. Second, conversion of proceeds from foreign-currency denominated bonds issued by Japanese companies reportedly increased substantially in recent weeks. And, third, data released during the past month showed a strong pickup in Japan's GNP in the first quarter (which could lead to higher Japanese interest rates in the future), and the continuation through May of a very low rate of increase in Japan's wholesale price index.

The decline in the dollar was less pronounced against the currencies of other countries. The German mark appreciated by less than

1/2 per cent and the Dutch guilder was unchanged, partly because short-term interest rates in these countries declined somewhat while U.S. interest rates rose. The Swiss franc rose more sharply (by nearly 1-1/2 per cent), however, because of a tightening of Swiss liquidity conditions. The Swiss National Bank apparently has taken steps to reduce its money growth rate, which had been running above target for several months.

The Italian lira and French franc were also in strong demand,

. Much of the demand for lire reflected conversions of foreign borrowings by Italian banks, which in turn were induced by tight monetary conditions in Italy. Net foreign liabilities of Italian commercial banks are estimated to have increased by an estimated $2.8 billion so far this year. Upward pressure on the lira eased this week after Italy cut its bank rate from 15 per cent to 13 per cent. The strength of the French franc was attributed, in part, to an improved outlook for France's trade position this year, and, in part, to increasing confidence that the present French government will strongly resist any significant depreciation of the franc.

, the British pound weathered a period of strong downward pressure during the latter part of May.

. One factor contributing to the turnabout in the sterling market was increasing concern over the outcome of upcoming negotiations for a third round of wage restraint. Data released during this period showed a sharp increase in the U.K.'s retail price inflation rate in April. Also, Britain's interest rates had declined to their lowest levels since 1973. The apparent bottoming out of long-term rates may have stimulated some flows of funds out of long-term sterling-denominated bonds by foreign investors who had purchased these assets in anticipation of short-term capital gains.

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Other currencies that weakened against the dollar during this period were the Scandinavian currencies and the Canadian dollar. The Swedish krona fell 1-1/4 per cent, replacing the mark at the bottom of the snake. Rumors of another realignment of snake parities, based on Sweden's persistent high inflation rate and trade deficit, led to the pressure on the krona. The Canadian dollar fell by nearly 1 per cent, largely on expectations of a further cut in the Bank of Canada's discount rate.

The Mexican peso depreciated by about 1 per cent over the past five weeks .

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The gold price declined steadily from $147.50 in early May to its current level just above $137.00.

International capital markets. Total borrowing in the Euro-credit, Euro-bond, and foreign bond markets in the first four months of this year amounted to about $21 billion. At an annual rate this was about equal to the rates for the second half of last year and for all of 1976, when such borrowing came to $62 billion. This year, activity in the Euro-credit market has kept pace with the high level recorded in the second half of 1976. Foreign bond issues have again slowed, partly reflecting Quebec's absence from the U.S. market; but Euro-bond issues have been at record levels, in part because of larger flotations by LDC borrowers.

In the market for medium-term Euro-currency bank credits, $10.8 billion of new credits were arranged in the first four months of the year according to provisional data This was well above the rate in the first half of last year and equal to that in the second half, which now includes over $1.4 billion of previously-unreported credits to Brazil and Iran. Among developed countries, borrowing this year has been principally by the governments of the United Kingdom and Sweden for $1.5 and $1.0 billion, respectively, and by France ($1.5 billion, mainly by the Caisse Nationale des Telecommunications for $500 million and Electricite de France for $600 million, the latter facility a back-up for U.S. commercial paper issues). The Danish Government arranged a $166 million equivalent Euro-credit in German marks, which was supplemented by a $126 million equivalent domestic-currency loan from German banks and two mark Euro-bond issues totaling $105 million equivalent. Spain has borrowed

Borrowing in International Capital Markets
(in billions of dollars)

	1974 Year	1975 Year	1976 Year	1976 1st H	1976 2nd H	1977 Jan.-Apr.
I. Medium-term Euro-credits:[1/] total	28.5	20.6	29.0	12.3	16.7	10.8
Developed countries	19.5	6.6	10.2	3.9	6.3	5.3
Denmark	.4	.3	.8	.4	.4	.2
France	3.3	.5	.8	.7	.1	1.5
Spain	1.1	1.0	1.9	.3	1.6	.3
Sweden	.2	.3	.4	.1	.3	1.0
United Kingdom	5.7	.6	2.2	1.0	1.2	1.6
Other	9.0	4.2	4.1	1.4	2.7	.4
Oil-exporting countries	.8	3.2	4.2	1.7	2.5	1.8
Algeria	0	.5	.6	.4	.2	0
Indonesia	.4	1.6	.5	.3	.2	0
Iran	.1	.2	1.4	.7	.7	.3
Venezuela	.1	.2	1.0	-	1.0	1.2
Other	.2	.7	.7	.3	.4	.3
Other developing countries	6.7	7.7	11.2	4.5	6.7	3.5
Argentina	.5	*/	1.1	.1	1.0	*/
Brazil	1.6	2.1	3.4	1.2	2.2	.9
Mexico	1.5	2.2	1.9	.7	1.2	.5
Philippines	.9	.3	.9	.7	.2	.2
Other	2.2	3.1	4.1	1.8	2.3	1.9
Socialist countries & org's.	1.1	2.7	2.5	1.4	1.1	.2
Int'l. org's. and others	.4	.4	.9	.9	0	0
II. Euro-bonds: total	4.5	10.2	15.0	8.4	6.6	6.8
Canada	.4	1.2	2.9	1.9	1.0	.7
France	.3	1.3	1.3	.8	.5	.4
Japan	.2	1.2	1.2	.7	.5	.4
Other dev. countries	1.4	4.7	5.8	2.5	3.3	3.9
Developing countries	.1	.2	.7	.3	.4	.5
Int'l. org's. & other	2.1	1.6	3.1	2.2	.9	.9
III. Foreign bonds: total	7.8	11.9	17.9	9.5	8.4	4.0
By borrower: Canada	2.0	3.4	5.9	3.4	2.5	.9
IBRD	3.1	2.4	3.0	1.6	1.4	1.2
Other	2.7	6.1	9.0	4.5	4.5	1.9
By market: U.S.[2/]	3.6	6 8	10.0	5.4	4.6	2.1
Switzerland	1.0	3.4	5.2	2.6	2.6	1.4
Other	3.2	1.7	2.7	1.5	1.2	.5

1/ Completed credits of one year or over.
2/ Figures may differ from statistics of U.S. international transactions because latter are on drawdowns basis.
*/ Less than $50 million.
Source: World Bank.

little this year, but after the June 15 parliamentary elections the Spanish Government may come to the market for perhaps $1 billion to help finance a current-account deficit expected to be $3-4 billion in 1977. Further substantial borrowing by Denmark in forthcoming weeks is also thought likely.

Three oil-exporting countries have arranged Euro-credits this year. Venezuela borrowed $1.2 billion in March, following a $1.0 billion credit last October; the United Arab Emirates concluded three credits for $276 million, and Iran arranged credits for $330 million.

Borrowing by the non-oil developing countries came to $3.5 billion in January-April; this represented some deceleration from the high annual rate in the second half of last year while remaining above the rate in the first half of 1976. Borrowing by Brazil and Mexico has been at slower rates than in the second half of last year, and Philippine borrowing has continued to be on a smaller scale than prior to mid-1976. For last year the total of credits to non-oil LDC's has been revised to include $920 million of dollar credits granted in October by European banks, mostly French.

New credits to Eastern Europe continued to decrease early this year. However, the second-quarter total should rise sharply to reflect a $500 million loan now being negotiated by the International Investment Bank of Moscow.

Euro-bond issues of $6.8 billion in January-April were well above last year's rate of $15 billion for the full year. Issues by borrowers in Canada, France, and Japan were maintained at around the levels of the second half of last year, while issues by borrowers in other developed countries, notably Britain, Norway, Sweden, and the United States, showed strong increases. Issues by developing countries, which had increased several-fold last year, rose sharply further in 1977 to over $0.7 billion in the first five months, of which over one-half were by Brazil and Mexico.

Foreign bond issues declined to $4.0 billion, a rate well below the record $17.9 billion of last year. In part this slowing reflects the absence of Quebec borrowers from the U.S. market this year because of the adverse impact of Quebec political developments on investor opinion of Quebec bonds. Last year Quebec-based borrowers issued $1.4 billion of bonds in the U.S. market, and the cessation of such issues so far in 1977 largely explains the drop in total Canadian foreign bond issues this year. However, issues by other borrowers (excluding the World Bank) have also fallen off this year.

U.S. International Transactions in April. U.S. merchandise trade resulted in a deficit of $35 billion at an annual rate in April, about the same as had been recorded in March, and about $12 billion larger than the January-February rate. A jump in the volume and value of fuel imports more than accounted for the larger March-April trade deficit. At the same time, private bank and security transactions resulted in a moderate net capital inflow. Foreign official reserve assets in the United States also increased sharply in April, mainly reflecting a continuation in the rapid accumulation of reserves in the United States by OPEC countries and intervention purchases of dollars by foreign central banks.

Nonagricultural exports in April remained flat at about the rate prevailing in the first quarter of 1977, down slightly from the fourth quarter of 1976. Since the end of 1976, the effect of small declines in volume on the dollar value of these exports has been nearly offset by price rises. Exports of civilian aircraft, which had dropped off in January and February, picked up in both March and April to about the 1976 rate. However, exports of machinery, which have been about a third of nonagricultural exports in recent years, dropped off in April. The sluggish foreign demand for U.S. machinery reflects, in part, the continuation of a pattern of weak economic growth abroad. In addition, there is some evidence of a decline over the past two years in U.S. price competitiveness with respect to Japan, and to a lesser extent, Germany, two of our major competitors in markets for these goods.

U.S. Merchandise Trade 1/
(Seasonally adjusted annual rates)

	1976					1977		
	Year	Q1	Q2	Q3	Q4	QIr	Mar.r	Apr.
VALUE (Bil.$, SAAR)								
Exports, total	114.7	108.0	113.5	118.4	118.9	118.4	120.8	120.1
Agricultural	23.4	21.5	23.1	25.3	23.7	24.4	26.3	25.8
Nonagricultural	91.3	86.5	90.5	93.1	95.2	94.0	94.5	94.3
Imports, total	123.9	113.3	119.7	129.5	133.2	145.7	156.1	155.0
Fuels	37.1	32.5	35.3	40.1	40.7	46.7	56.6	53.5
Nonfuels	86.8	80.8	84.4	89.5	92.5	99.0	99.6	101.5
Trade Balance	-9.2	-5.3	-6.1	-11.1	-14.3	-27.3	-35.3	-34.9
UNIT VALUE INDEXES (1974=100)								
Exports - Agric.	92.0	91.6	91.0	92.8	92.5	96.4	98.2	100.0
- Nonagric.	123.8	121.0	122.7	123.9	127.4	127.4	128.1	128.2
Imports - Fuels	109.7	108.2	109.1	109.7	111.6	117.1	120.6	120.7
- Nonfuels	111.8	108.7	111.2	113.1	114.0	117.9	119.1	118.0
VOLUME INDEXES (1974=100)								
Exports - Agric.	113.4	104.7	113.1	121.6	114.4	113.5	119.8	115.6
- Nonagric.	97.2	94.1	97.2	99.0	98.4	97.3	97.3	97.0
Imports - Fuels	123.0	109.2	117.6	132.8	132.5	145.2	171.6	161.1
- Nonfuels	101.9	97.5	99.6	103.8	106.6	110.2	109.7	112.9

1/ International accounts basis.
NOTE: Details may not add to totals because of rounding.
r = revised.

Agricultural exports in April increased by 6 per cent from the first quarter rate as both the volume and unit value rose. Increases in the volume and value of soybean, soybean meal, and cotton exports have more than offset declines in the volume and value of grain exports that have occurred since the fourth quarter of 1976. The sharp rise in soybean export prices -- to $9.09 per bushel in April from $6.81 in December -- has been caused by strong foreign demand in the face of a dwindling supply. Soybean prices are expected to drop after the fall harvest.

The value of nonfuel imports rose by 2-1/2 per cent from the first-quarter rate in April, with higher coffee import prices accounting for about two thirds of the increase. The volume of coffee imports was almost unchanged from the first-quarter rate. Imports of foreign-type cars rose in April after several months of brisk retail sales and declining dealer inventories. The value of imports of nonfuel industrial supplies also increased substantially, reflecting the rapid pace of the U.S. economic expansion.

The value of fuel imports declined by 5 per cent in April from the rate in March but remained 15 per cent above the first quarter rate and 31 per cent above the rate in the fourth quarter of 1976. The volume of petroleum imports averaged 10.3 million barrels per day in April, a 24 per cent increase over the fourth quarter of 1976. The average price of a barrel of imported oil in April was $13.46, compared with $12.35 in December. Part of the sharp rise in both the price and quantity of imported petroleum can be explained by the increased demand for more expensive low-sulphur crude oil. Because of the unusually cold weather last winter, stocks of heating oils, refined from low-sulphur crude, were depleted. Since restocking of heating fuels should be tapering off, the average price of imported oil is expected to decline slightly over the next two months before resuming its rise during the third quarter of 1977, when Saudi Arabia will likely raise its oil price by 3 to 5 per cent.

U.S. Fuel and Lubricant Imports
(International Accounts Basis)

	1976					1977		
	Year	Q1	Q2	Q3	Q4	Q1	March	April
Petroleum and Products								
Quantity (million barrels/day, SA)	7.79	6.97	7.44	8.50	8.29	9.32	10.99	10.31
Price ($/barrel)	$12.14	$11.93	$12.11	$12.17	$12.32	$13.00	$13.49	$13.46
Value (bil.$, SAAR)	34.6	30.3	33.0	37.6	37.5	44.3	53.7	50.8
Other Fuels (bil.$,SAAR)	2.4	2.1	2.3	2.1	3.1	2.4	2.8	2.8
Total Fuels 1/ (bil.$,SAAR)	37.1	32.5	35.3	40.1	40.7	46.7	56.5	53.5

1/ Includes small adjustments for military imports and for a Canadian data adjustment not shown in the components.

Total petroleum stocks were built up at the rate of about 1 million barrels per day in April, after rising, relative to previous years, at about 200 thousand barrels per day in the first quarter. The current near-record level of petroleum stocks, in part, can be explained by stockpiling in anticipation of the expected Saudi Arabian price increase, as well as by the potential for capital gains for holders of above-ground oil if the President's proposed well-head tax on oil is enacted. Some of the stocks built up in the first half of 1977 are expected to be run down in the third and fourth quarters. The stock run-down, together with the anticipated increase in domestic production resulting from the opening of the Alaskan pipeline, is expected to reduce the volume of petroleum imports during the second half of 1977 by over 20 per cent from the April level.

Private capital flows (for which data are available) shifted to a $1.4 billion net inflow in April from a $1.7 billion net outflow in March. After adjusting for temporary month-end factors, there was probably a small net inflow in April.

Bank-reported private capital transactions resulted in a net inflow of $2.4 billion in April. After adjusting for an under-reporting of outstanding claims on foreign banks, associated with over-the-weekend arbitrage activity between the Federal funds and Euro-dollar markets, the net inflow of funds may have been about $1.4 billion. However, the April inflow largely reflected portfolio restructuring by the World Bank, which reduced its holdings of long-term Treasury issues and increased its holdings of CD's -- liabilities of banks. Apart from the World Bank transaction, there was only a small net flow, compared with a sizeable outflow in March. This change was probably related to the relative easing of foreign short-term interest rates in April.

Other private securities transactions resulted in a small net inflow during April, bringing the inflow to $250 million so far in 1977. Foreign net purchases of U.S. corporate stocks continued in April at the low first-quarter rate of $125 million per month. Foreign net purchases of U.S. corporate bonds of $80 million were largely accounted for by the sale abroad of a new issue by a financial subsidiary of a U.S. corporation.

New issues of foreign securities in the United States of $150 million in April were at a rate considerably below the $830 million monthly average of 1976. New issues in the second quarter will be at least $2.2 billion -- including new Canadian issues of $1.0 billion and international development finance institution issues of $700 million. The expected second-quarter total will be at least $1 billion higher than in the first quarter of 1977.

Foreign official reserve assets in the United States (excluding OPEC) increased by $1.8 billion in April. Developed countries increased their reserve holdings in the United States by about $1.3 billion and developing countries by about $500 million.

OPEC reserves assets in the United States increased by $1.3 billion in April, bringing the January - April total to about $4 billion compared with about $8 billion in all of 1976. One OPEC country purchased $200 million, in a private placement, of a note issue of a U.S. corporation.

A $300 million decrease in U.S. reserve assets corresponded to the repayment of a drawing on a Treasury swap facility by Mexico and on an IMF drawing by Malaysia.

<u>Fixed Investment in Major Foreign Industrial Countries.</u> A disturbing feature of the present recovery in the major industrial countries has been the failure of fixed investment to show greater strength. The weakness of investment spending has slowed the overall growth of aggregate demand and has sparked fears that future growth and employment will be limited by an inadequate capital stock.

As Table 1 indicates, total fixed investment did recover in all the major OECD countries except the United Kingdom in 1976, after having fallen in 1975 in all countries except Canada. However, the recovery was unimpressive by previous standards -- the highest rates were for Japan, Germany and France, where the rates of increase ranged between 4.5 and 4.8 per cent, while in Canada and Italy investment grew by only slightly more than 2 per cent.

The weakness of fixed investment in relation to overall growth of output is shown in Table 2 which presents data on fixed investment (excluding residential construction) as a proportion of GNP. This ratio fell in 1976 for Germany, Japan, the United Kingdom and Canada and was virtually flat in Italy and France. Although fixed investment normally lags other components of demand during a recovery, its prolonged sluggishness during the current recovery is out of line with previous experience. The investment ratio in Germany and Japan is particularly low by historical standards -- for both countries the ratio is considerably more than one standard deviation below its historical mean for any of the periods shown in the table.

Table 1

Real Fixed Gross Investment in Major Industrial Countries, 1970-77
(Percentage Change from Preceding Period)

	1970-74 Annual Average	1975 Year	1976 Year	1976 (Seasonally Adjusted) Q1	Q2	Q3	Q4	1977[f] Year
Canada - Total	6.4	1.8	2.2	-1.2	1.6	-5.6	2.7	-0.4
Mach., Equip., & Non-Res. Construction	5.7	5.0	-2.9	-2.7	0.4	-7.7	4.3	
Residential Construction	8.8	8.0	18.8	3.6	4.8	0.3	-1.3	
France - Total	5.6	-3.4	4.5[p]					0.7
Mach., Equip., & Non-Res. Construction	5.0	-3.8	6.8					
Residential Construction	7.0	-2.6	-0.1					
Germany - Total	2.3	-4.2	4.7	0.9	1.4	-1.1	2.9	4.5
Mach., Equip., & Non-Res. Construction	2.4	-2.3	5.5					
Residential Construction	1.9	-12.1	1.7					
Italy - Total	2.3	-13.0	2.3	2.6	1.4	0.7	3.6	2.0
Mach., Equip., & Non-Res. Construction	3.9	-13.8	3.7					
Residential Construction	-1.4	-10.9	-1.2					
Japan - Total	5.7	-2.8	4.8	4.9	2.2	-0.2	-1.7	5 - 5-1/2
Machinery & Equip. (Private)	4.5	-13.1	1.7	3.2	1.2	00.4	0.5	
Dwellings (Private)	6.2	7.3	10.8	11.4	-1.2	0.1	-3.5	
Government	9.0	11.1	5.6	2.7	6.6	1.2	-3.7	
United Kingdom - Total	1.8	-1.3	-4.3	0.7	-2.7	-0.1	-3.2	-3.3
Mach. Equip., & Non-Res. Construction	2.0	-2.9	-5.2	0.2	-1.4	-0.3	-3.9	
Residential Construction	0.8	6.8	-0.3	2.8	-8.2	0.7	0.0	
United States - Total	3.95	-13.7	8.7	2.8	2.5	2.7	2.4	11.5
Mach. Equip., & Non-Res. Construction	4.1	-13.3	3.9	1.9	2.0	2.3	0.2	
Residential Construction	4.9	-14.7	22.7	5.3	3.6	3.7	7.8	

Sources: 1970-76 national sources. Blanks indicate data not available.
p = preliminary.
f - forecast -- OECD, national sources and FRB staff.

A depressed investment ratio lowers the rate of capital accumulation, and, if it persists for several years, will limit capacity and potential growth. However, at the present time, the major economies are not facing general capacity pressures, and there is only limited evidence of bottlenecks in specific sectors. There are reasons for concern that the slow rate of business capital formation might have more serious consequences for employment. Recent labor force growth, because of the large number of young people entering the labor force, and increased female labor force participation, has been high. At the same time, real wages may be above market-clearing levels and might be encouraging higher capital-labor ratios in business investment. Thus, at the same time that the capital requirements for full employment have been increasing, investment ratios and rates of capital accumulation have been lower.

Several factors can be adduced to explain the weakness of investment abroad, particularly business investment. First, capacity utilization in all the major countries fell to very low levels because of the deep recession. There was -- except in Canada -- a recovery in utilization rates in 1976, but, on the basis of available capacity utilization series, these levels are still historically low.

Second, depressed business confidence and pessimistic expectations about future growth appear to be inhibiting new investment. The persistence of high inflation rates creates uncertainty -- for example, about the profitability of investment or the possible adoption of restrictive demand management policy.

Table 2

Gross Fixed Capital Formation (Excluding Residential Construction)
as Percentage of GNP/GDP,
1960-1976[1/]

	Mean					Standard Deviation		
	1960-69	1970-74	1960-74	1975	1976	1960-69	1970-74	1960-74
Canada	17.7	17.0	17.5	19.0	17.2	1.41	.46	1.22
France[2/]	-	16.8	-	16.2	16.3	-	.11	-
Germany	19.2	19.4	19.2	16.7	16.1	1.11	1.63	1.25
Italy	14.6	14.9	14.7	14.7	14.5	1.93	.72	1.60
Japan[3/]	26.7	27.2	26.9	23.0	21.8	1.57	.64	1.33
United Kingdom	16.3	17.6	16.7	17.5	16.9	.83	.44	.95
United States	9.8	10.2	10.0	9.7	9.5	.71	.32	.62

Source: National sources and OECD.

1/ Ratios are estimated from capital formation and GNP/GDP expressed in current values. Government capital formation included except for the U.S.

2/ Data prior to 1970 not available on a consistent basis.

3/ Includes a small amount of government residential construction.

Third, there was a general shift in the distribution of income away from profits and towards wages in 1975 (except for Canada) which, while partially reversed in 1976, has still left wage shares higher and profit (or property income) shares lower than in previous periods. The depressed level of corporate profits may have been a factor inhibiting investment -- by reducing both funds available for investment and the expected profitability of investment. At the present time, however, corporate liquidity has recovered from its low levels of 1975 and internal funds do not seem to be a barrier to investment.

New investment in 1977 is still not expected to be buoyant (see Table 1) and appears to be depressed more by demand factors -- capacity utilization, expected growth and expected profitability -- than by availability of funds -- either internally generated or on the credit markets.

The United Kingdom was the only major OECD country in which fixed investment fell in 1976, although manufacturing investment did rise during the year. The announced government intention is to increase investment and net exports at the expense of public and private consumption, but the immediate concern last year was the foreign exchange crisis, which was given precedence over investment, as interest rates rose dramatically last fall in response to monetary tightening. The government has an ongoing program to revitalize industry, but its only specific recent measure to encourage investment is a £100 million .

program of investment incentives through subsidizing interest rates.

In Germany, although investment recovered in 1976, no boom is on the horizon. Except for the automotive sector, capacity utilization is still low. The authorities believe that stable expectations -- particularly in regard to inflation -- are important to encourage investment and view modest money supply growth and reduced budget deficits as a way therefore to encourage investment. The authorities also advocate higher profitability to stimulate investment, but seek to achieve this without formal incomes policies.

The government has used investment incentives since late 1974, and in December 1974 a 7.5 per cent investment bounty was announced for investment-goods orders that were placed by mid-1975. Most observers believe that much of the effect of the program has been to advance existing investment intentions rather than encourage new investment. There is also a view that much new investment has been for rationalizing plant capacity rather than adding to capacity. The major present government initiative is the Medium-Term Program to Improve Infrastructure involving DM16 billion of expenditure spread over several years.

Although fixed investment rose in Japan in 1976 after two successive years of decline, the rate of increase was still far below historical levels. It might be noted, also, that it is unlikely that Japan will experience in the medium-term the high investment ratios of the past. In the last half of 1976 investment actually declined, while it rose by only 0.2 per cent in the first quarter of 1977 over the preceding quarter. Investment weakness was particularly marked in the manufacturing sector, except in iron and steel, and was due primarily to low levels of capacity utilization. Much of the recent fixed investment in Japan was not devoted to expanding capacity, but to pollution control, energy-saving and maintenance.

The government has taken various steps to stimulate investment -- an acceleration of public works expenditures, increased financial assistance for residential construction and the provision of loans by government-affiliated financial institutions to accelerate private equipment investment.

In France, investment is expected to show very little gain in 1977 after having risen 4.5 per cent in 1976. The key factor discouraging investment is probably confidence, given the climate of uncertainty created by next year's election. In addition, corporate profits were very weak in 1975 and probably did not recover very much in 1976.

Although the overall aim of current policy is directed to expanding employment rather than investment, the government has instituted several programs to stimulate investment: (1) a special investment credit on orders placed in 1975 for delivery in 1976; (2) the authorization of about $2.5 billion in special long-term credits at subsidized rates in 1977 to be allocated about evenly between state enterprises, large private enterprises, and "small and medium sized" firms; and (3) large increases in public enterprise investments in 1976 and 1977.

In Italy, investment recovered slightly in 1976 after its precipitous fall of 13 per cent in 1975. The government has stated that it wants to direct resources towards investment and exports and away from public and private consumption. The domestic credit expansion (DCE) limit the authorities have accepted, while it will restrict activity and, therefore, probably investment demand, allocates a smaller share of DCE to Treasury borrowing than last year and more to public and private investors.

Italy has had long-standing extensive programs intended to stimulate investment of certain types through credit allocations and interest subsidies. The only major new initiative is the block on index-linked pay increases for high income workers, with the proceeds invested in bonds to finance small and medium sized enterprises.

In Canada, unlike the other major industrial countries, fixed investment did not fall in 1975, but it has nevertheless been weak for the last two years. The factors accounting for this weakness are uncertainties created by incomes policy and later by the situation in Quebec, as well as by an adverse movement in unit labor costs relative to the United States. There is some evidence that in the past year net direct investment has been flowing from Canada to the United States.

Many of the measures announced in the March 31 budget were directed towards stimulating investment. These include a three year extension and a broadening of coverage of the 5 per cent investment tax credit introduced in 1975 and changes in personal and business income taxes to encourage equity investment.