

Prefatory Note

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

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

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

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

CONFIDENTIAL (FR)

August 10, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

	<u>Section</u>	<u>Page</u>
DOMESTIC NONFINANCIAL DEVELOPMENTS	II	
Industrial production.....		1
Nonfarm payroll employment.....		1
Unemployment rate.....		3
Personal income.....		3
Conference Board Consumer Survey.....		5
Retail sales.....		5
Auto sales.....		7
Manufacturing inventories.....		7
Contracts and orders for plant and equipment.....		8
Contracts for commercial and manufacturing buildings.....		8
New orders for nondefense capital goods.....		8
Capacity utilization.....		12
Total private housing starts.....		12
Federal spending.....		12
State and local government spending.....		16
Consumer prices.....		16
Unit labor costs.....		18
Output per hour in the nonfarm business sector.....		18
Average hourly earnings index.....		18
Hourly compensation.....		18
First-year wage-rate adjustments.....		20
TABLES:		
Average monthly changes in employment.....		2
Selected unemployment rates.....		2
Personal income.....		4
Retail sales.....		8
Auto sales.....		8
Business inventories.....		10
Inventory ratios.....		10
Composition of business fixed investment.....		11
Commitments data for business fixed investment.....		13
Capacity utilization series.....		14
New private housing units.....		15
Recent changes in consumer prices.....		17
Productivity and costs.....		19
Hourly earnings index.....		21
Major collective bargaining settlements.....		21
CHART:		
Consumption and household balance sheet 1972-77.....		6

TABLE OF CONTENTS

Continued

	<u>Section</u>	<u>Page</u>
DOMESTIC FINANCIAL DEVELOPMENTS	III	
Monetary aggregates and bank credit.....		3
Business credit.....		6
Treasury and municipal securities markets.....		11
Mortgage and consumer loans.....		14
TABLES:		
Selected financial market quotations.....		2
Monetary aggregates.....		4
Commercial bank credit.....		7
Security offerings.....		10
Recent movements in stock prices.....		12
Total market value of all NYSE- and ASE-listed stocks classified by price-earnings ratios.....		12
Interest rates and supply of funds for conventional home mortgages at selected S&L's.....		15
Secondary home mortgage market activity.....		15
Consumer instalment credit.....		17
 INTERNATIONAL DEVELOPMENTS	 IV	
Foreign exchange markets.....		1
International capital markets.....		3
Medium-term Euro-currency bank credits.....		3
Euro-bond issues.....		4
Foreign bond issues.....		5
U.S. international transactions in the second quarter.....		8
U.S. merchandise trade.....		9
Foreign participation in selected U.S. credit markets.....		11
U.S. Treasury securities.....		11
Corporate securities.....		12
Foreign securities.....		13
Prices and price policies in foreign industrial countries.....		14

TABLE OF CONTENTS

Continued

Section

Page

IV

TABLES:

Borrowing in international capital markets.....	6-7
Summary of U.S. merchandise trade.....	8
Summary of selected U.S. capital transactions.....	9
Petroleum & products.....	10
Foreign activity in selected U.S. credit markets.....	12
Price developments in major foreign countries 1974-77.....	15

APPENDIX:

Revision of national income and product accounts.....	A-1
---	-----

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
						(At annual rate)
Civilian labor force	July	8-5-77	97.3	-4.1	2.3	2.2
Unemployment rate (%) ^{1/}	July	8-5-77	6.9	7.1	7.0	7.8
Insured unemployment rate (%) ^{1/}	July	8-5-77	3.9	3.7	3.7	4.6
Nonfarm employment, payroll (mil.)	July	8-5-77	82.4	3.7	3.3	3.6
Manufacturing	July	8-5-77	19.7	4.3	3.3	3.9
Nonmanufacturing	July	8-5-77	62.7	3.6	3.2	3.5
Private nonfarm:						
Average weekly hours (hr.) ^{1/}	July	8-5-77	36.1	36.2	36.2	36.1
Hourly earnings (\$) ^{1/}	July	8-5-77	5.35	5.22	5.17	4.88
Manufacturing:						
Average weekly hours (hr.) ^{1/}	July	8-5-77	40.3	40.5	40.3	40.1
Unit labor cost (1967=100)	June	7-29-77	153.0	.8	1.0	6.0
Industrial production (1967=100)	June	7-15-77	138.6	8.7	10.1	6.5
Consumer goods	June	7-15-77	144.7	6.7	5.3	5.0
Business equipment	June	7-15-77	151.6	18.5	19.7	12.3
Defense & space equipment	June	7-15-77	80.0	6.0	8.7	2.2
Materials	June	7-15-77	138.9	8.7	10.0	5.9
Consumer prices (1967=100)	June	7-21-77	181.9	6.6	7.8	6.9
Food	June	7-21-77	193.9	9.4	12.1	7.0
Commodities except food	June	7-21-77	165.1	2.9	4.2	5.7
Services	June	7-21-77	194.2	9.3	9.1	7.9
Wholesale prices (1967=100)	June	7-8-77	194.1	-6.7	3.8	6.2
Industrial commodities	June	7-8-77	194.2	3.1	5.2	7.2
Farm products & foods & feeds	June	7-8-77	191.4	-41.2	-1.7	2.4
Personal income (\$ bil.) ^{2/}	June	7-20-77	1529.9	8.2	8.2	11.5
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	June	8-2-77	58.8	-.7	-.7	14.6
Capital goods industries	June	8-2-77	17.8	-2.5	6.4	17.2
Nondefense	June	8-2-77	15.7	4.9	8.0	24.8
Defense	June	8-2-77	2.1	-35.9	-4.6	-19.2
Inventories to sales ratio: ^{1/}						
Manufacturing and trade, total	May	8-9-77	1.46	1.45	1.46	1.50
Manufacturing	June	8-2-77	1.56	1.58	1.52	1.63
Trade	May	8-9-77	1.34	1.34	1.34	1.37
Ratio: Mfrs.' durable goods inventories to unfilled orders ^{1/}	June	8-2-77	.629	.627	.635	.625
Retail sales, total (\$ bil.)	June	7-11-77	59.2	.0	-.5	9.7
GAP	June	7-11-77	14.1	-1.9	-1.2	6.4
Auto sales, total (mil. units) ^{2/}	July	8-5-77	10.8	-8.1	-7.0	6.8
Domestic models	July	8-5-77	8.7	-9.3	-5.8	.1
Foreign models	July	8-5-77	2.1	-2.8	-11.6	47.5
Housing starts, private (thous.) ^{2/}	June	7-19-77	1,833	-6.2	-12.3	22.7
Leading indicators (1967=100)	June	7-29-77	129.4	-.6	-.4	3.0

^{1/} Actual data used in lieu of per cent changes for earlier periods.

^{2/} At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity continued to expand last month. Payroll employment increased significantly and retail sales apparently rose after 3 months of little change. Moreover, industrial production appears to have risen further in July. The latest indications of business spending suggest ongoing growth in plant and equipment outlays and a moderation of inventory accumulation. Consumer prices continued to increase rapidly in June, while farm product and food prices at wholesale fell further.

Industrial production is tentatively estimated to have risen close to 0.7 per cent in July, about the same as in June. Sizable advances in consumer durables and business equipment led the July increase, while a reduction in steel output held down the rise in materials. Auto assemblies in July rose slightly from June. The 1978 model change-over began this month and production schedules will be reduced more than usual, reflecting a larger-than-normal retooling effort by General Motors. Automakers will not be hindered by tighter emission control standards on 1978 models since amendments to the Clean Air Act continues the 1977 standards for the next 2 model years.

Reflecting the continued advance in industrial activity, hiring was brisk at nonfarm establishments in July. After adjusting for strike activity--largely in Eastern coal mines--nonfarm payroll employment expanded 300,000, somewhat more than the average monthly

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

	Average monthly change		Recent Months		
	Apr. 76	Oct. 76	Apr. 77	May 77	June 77
	to Oct. 76	to July 77	to May 77	to June 77	to July 77
<u>Nonfarm payroll employment</u>	85	281	235	174	256
(Strike adjusted)	100	276	251	163	299
Manufacturing	-11	83	72	19	71
Durable	0	57	46	21	37
Nondurable	-12	27	26	-2	34
Construction	-6	37	19	16	36
Trade	27	51	32	-8	58
Services and finance	59	70	32	52	82
State and local Government	13	29	67	83	41
<u>Total household employment</u>	68	314	385	271	-118
Nonagricultural	83	324	259	319	7

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	June	July
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.0	7.1	6.9
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.1	5.0	5.1
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.9	7.2	6.9
Teenagers	19.2	18.8	18.8	19.1	18.6	18.1	18.6	17.4
Household heads	5.0	4.9	5.3	5.3	4.8	4.4	4.3	4.3
Married men	4.1	4.1	4.4	4.4	3.9	3.5	3.4	3.4
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.5	6.5	6.5

Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.0	7.1	6.9
1975 factors	7.8	7.5	7.6	7.9	7.6	7.1	7.0	6.8

gain over the past year. Manufacturing employment also registered a good gain, rising 70,000; increases continued in the machinery industry, and there were sizable additions to jobs at apparel and textile plants. However, the factory workweek dropped 0.2 hour to 40.3 hours in July, with large reductions in primary metals and transportation equipment and smaller changes elsewhere.

The unemployment rate returned in July to the May level of 6.9 per cent. Total employment, as measured by the household survey, edged down for the first time since last October with almost the entire decline in agricultural jobs. This drop in total employment follows a blistering second quarter increase of 1.4 million. Declines in unemployment were concentrated among adult women and teenagers and were reflected in a lower jobless rate for part-time workers, among whom unemployment rose the previous month. Unemployment rates for more experienced groups were again practically unchanged.

Reflecting strong growth of employment, personal income advanced briskly during the first half of 1977. Gains in wage and salary disbursements slowed in June, but the second quarter rate of increase was the fastest since early 1976. Employment and earnings data suggest that wages and salaries rose moderately further last month, and the cost-of-living increase for Social Security recipients, which was initially paid in July, bolstered income growth.

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	QII	May ^{1/}	June ^{1/}
<u>Current dollars</u>								
Total personal income	10.8	8.9	8.2	11.5	13.1	12.3	6.8	8.2
Nonagricultural income	13.0	8.4	10.0	11.4	12.0	12.3	7.0	8.4
Wage and salary disbursements	13.4	10.1	8.3	10.7	12.7	13.1	9.7	5.9
Private	16.2	11.2	8.9	10.9	14.9	15.2	11.0	6.0
Manufacturing	21.4	11.2	6.0	8.4	17.9	17.0	15.5	6.8
Government	3.6	5.8	6.2	9.5	4.9	5.0	4.9	5.5
Nonwage income	7.6	6.7	7.9	12.3	14.5	10.5	2.0	11.4
Transfer payments	11.5	-3.1	12.4	7.6	11.6	.4	-18.1	-3.5
Dividends	14.2	17.7	11.9	29.5	1.0	20.1	9.2	69.7
<u>Constant dollars^{2/}</u>								
Total personal income	5.4	3.8	2.4	2.8	8.4	3.2	-.5	1.6
Nonagricultural income	7.4	3.4	4.1	6.8	3.3	3.2	-.4	1.8
Wage and salary disbursements	7.8	5.0	2.4	6.0	4.0	4.0	2.4	-.8

Memorandum:								
Real disposable per capita income	4.5	2.3	.5	4.1	2.4	7.6		

^{1/} Per cent change at annual rate, not compounded.

^{2/} Deflated by CPI, seasonally adjusted.

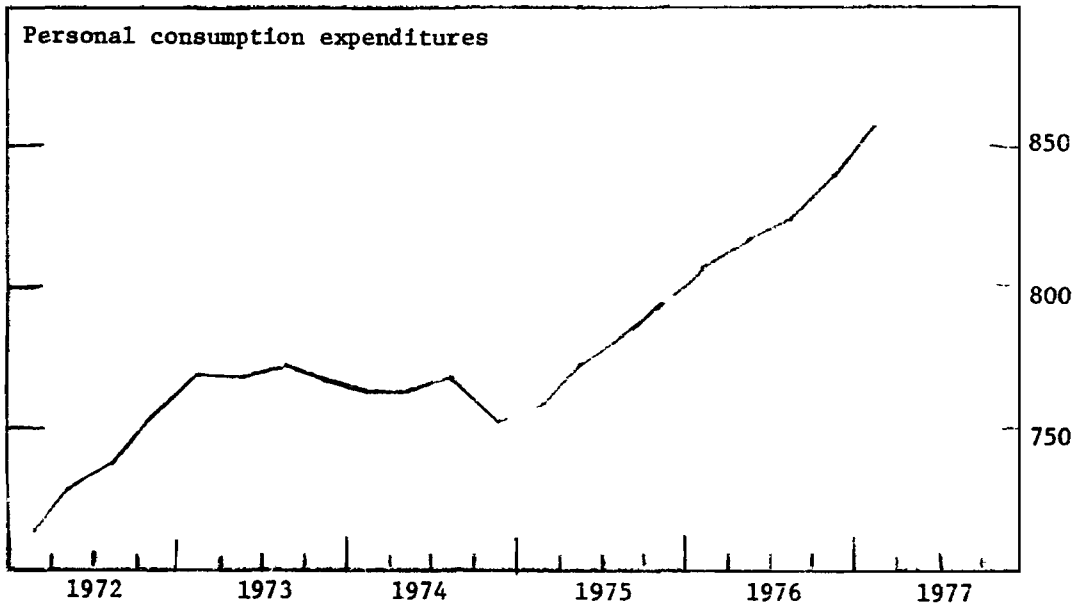
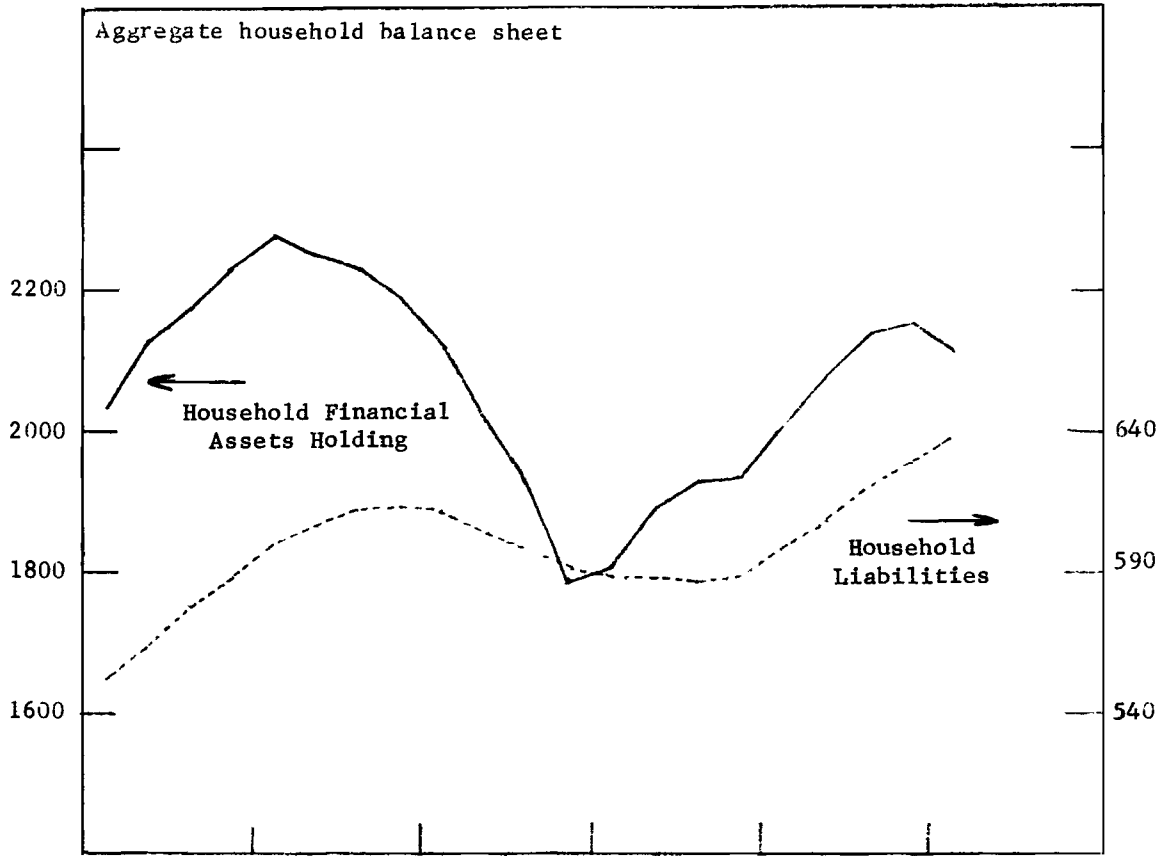
Supported in part by the rapid growth of personal income, consumer spending has provided the major impetus to the economic expansion. Consumer expenditures have generally grown more rapidly than disposable income since the recession low, and the savings rate has dropped sharply. The decline in the savings rate and the large increases in consumer installment debt beginning late last year have raised questions about the prospective strength of consumer demand.

The strong growth in consumer outlays after early 1975 was accompanied by a steady improvement in household financial positions (financial assets less liabilities), as chart 1 indicates. Recently, however, there has been some weakening in household financial positions. In the first quarter of 1977, liabilities advanced steadily, but the real value of financial asset holdings declined. Recent developments in the stock market and the high rate of installment debt accumulation suggest further weakening. Accordingly, in the second quarter financial positions are likely to be less supportive of growth in consumer spending than they were during the first two years of the recovery. In July, the Conference Board consumer survey indicated that consumer confidence continued at a high level.

Retail sales apparently registered the first monthly advance since March. Based on weekly data, retail sales, excluding autos and mainly nonconsumer items, are estimated to have increased 1 per cent in July. Expenditures for such discretionary items as general mer-

Chart 1
CONSUMPTION AND HOUSEHOLD BALANCE SHEET 1972 - 1977

(Billions of 1972 Dollars)



chandise, apparel, as well as furniture and appliances (GAF) rose vigorously, and spending at gas stations also was up strongly. On the other hand, sales at food stores declined.

Unit auto sales eased last month following the rapid second quarter pace. Total sales in July were at a 10.8 million unit annual rate, with domestic units at an 8.7 million unit rate--off from the 9.6 million unit rate of the previous month and the 9.3 million selling pace of the first half. Foreign models sold at a 2.1 million unit rate in July, off slightly from June and well below the record second quarter pace.

The book value of manufacturing inventories rose at a \$10-1/2 billion annual rate in June--about half the average pace of the previous two months. With increased shipments and some manufacturers of nondurable goods cutting back production and employment in June, there was a slight liquidation of nondurable inventories (\$1.0 billion, annual rate). For the second quarter as a whole, however, the rate of increase in these stocks was \$6.8 billion--up from \$3.3 billion in the first quarter and no change in the fourth. Durable goods producers added to stocks in June at about the same \$11-1/2 billion pace as in May; for the quarter durable inventories were up \$9.7 billion--up a bit from the first quarter rise. The inventory-sales ratio for all manufacturing edged down to 1.56 in June--remaining at an historically low level. The book value of wholesale trade inventories rose at a

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

	1976		1977				
	QIV	QI	QII	Apr.	May	June	July ^{2/}
Total Sales	3.5	3.7	2.1	-.1	-.4	.0	.8
(Real) ^{1/}	2.6	1.6	.0	-.9	-.9	-.5	n.a.
Total less auto and nonconsumption items	3.2	1.8	2.5	.9	.0	.1	1.0
GAF	4.3	.1	2.1	1.3	-.6	-1.9	4.1
Durable	3.9	7.3	1.6	-1.7	-1.3	-.2	.9
Auto	4.3	11.0	-.2	-3.6	-1.7	.3	-.1
Furniture and appliances	4.2	1.6	4.3	1.2	-.5	1.0	3.4
Nondurable	3.3	2.0	2.3	.8	.1	.1	.8
Apparel	1.8	-.7	-3.9	-.7	-.1	-8.8	8.8
Food	2.2	1.4	3.8	.4	1.6	.6	-1.3
General merchandise	5.1	-.1	3.2	1.9	-.8	-1.0	3.2
Gasoline	4.8	2.7	3.8	3.5	.5	-.2	2.0

^{1/} Deflated by all commodities SA consumer price index.

^{2/} Staff estimate based on weekly data ending July 30.

AUTO SALES
(Seasonally adjusted, millions of units)

	1976		1977					
	QIV	QI	QII	Mar.	Apr.	May	June	July
Total	10.0	11.1	11.7	12.2	11.7	11.7	11.8	10.8
Imports	1.7	1.8	2.4	2.0	2.4	2.6	2.2	2.1
Domestic ^{1/}	8.3	9.3	9.3	10.1	9.3	9.1	9.6	8.7
Large	5.2	6.2	5.9	6.8	6.0	5.7	6.1	n.a.
Small	3.1	3.1	3.3	3.3	3.2	3.3	3.5	n.a.

^{1/} Parts may not add to the total because of rounding.

\$2.3 billion annual rate in June, about the same as in May. Stocks of nondurable goods were reduced at a \$4 billion annual rate, the second month of decline following earlier large advances. Stocks of durable goods held by wholesalers were again accumulated at a relatively high rate.

Business spending on plant and equipment rose sharply over the year ending in the second quarter. The second quarter rise in producers durable equipment was generalized among machinery components rather than being concentrated in motor vehicles as it was in the first quarter. There was a strong increase in expenditures on commercial and industrial buildings in the second quarter, a very weak component of capital spending over the past several years. However, much of the second quarter construction increase probably represents a recovery following the weather-depressed first quarter.

Commitments for fixed investment, as measured by contracts and orders for plant and equipment, declined somewhat in June but for the quarter advanced 13 per cent in nominal terms. Due to a substantial bulge in power plant contracts, which are classified among nonbuilding activity, total commitments for the quarter showed more strength than either buildings contracts or new orders. Contracts for commercial and manufacturing buildings--measured by floor space--edged off in June after a sharp rise in May. New orders for nondefense capital goods advanced 4.9 per cent in June and 4.5 per cent for the

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

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	May	June
Manufacturing and trade	23.1	31.5	29.6	10.3	32.8	n.a.	37.0	n.a.
Manufacturing	7.5	14.2	15.4	6.5	11.2	16.5	22.6	10.5
Durable	1.7	6.8	6.8	6.4	7.8	9.7	11.6	11.5
Nondurable	5.8	7.5	8.6	.0	3.3	6.8	11.0	-1.0
Trade, total	15.6	17.3	14.2	3.9	21.6	n.a.	14.4	n.a.
Wholesale	5.1	9.0	4.3	1.6	9.7	3.6	2.2	2.3
Retail	10.5	8.3	9.9	2.2	12.0	n.a.	12.9	n.a.
Auto	1.1	.1	4.8	1.3	2.2	n.a.	5.1	n.a.

INVENTORY RATIOS

	1975	1976		1977			
	QII	QII	QIV	QI	QII	May	June
<u>Inventory to sales:</u>							
Manufacturing and trade	1.62	1.51	1.51	1.47	n.a.	1.46	n.a.
Manufacturing	1.84	1.64	1.66	1.58	1.58	1.58	1.56
Durable	2.40	2.03	2.04	1.94	1.93	1.92	1.91
Nondurable	1.26	1.23	1.25	1.20	1.20	1.20	1.19
Trade, total	1.40	1.37	1.37	1.36	n.a.	1.34	n.a.
Wholesale	1.26	1.22	1.22	1.22	1.18	1.18	1.19
Retail	1.50	1.48	1.47	1.47	n.a.	1.47	n.a.
<u>Inventories to unfilled orders:</u>							
Durable manufacturing	.612	.625	.632	.635	.629	.627	.629

COMPOSITION OF BUSINESS FIXED INVESTMENT^{1/}
 (Per cent changes at compound annual rates; based
 on constant 1972 dollars)

	76:QII to 77:QII	77:QI to 77:QII
Business Fixed Investment	9.6	9.0
Producers' Durable Equipment	13.2	9.3
Nonelectrical machinery	10.3	19.1
Electrical machinery	13.7	1.8
Transportation equipment ^{2/}	20.3	1.2
Motor vehicles	24.2	6.6
Miscellaneous equipment	6.9	10.2
Nonresidential Structures ^{2/}	1.8	9.1
Commercial and industrial buildings	-.5	22.2
Other nonfarm buildings	-1.3	2.6
Utilities	4.3	5.2

^{1/} Subcategories are confidential data for internal use only.

^{2/} Contains categories not shown separately.

second quarter as a whole, close to the 5-1/4 per cent average quarterly increase recorded since the beginning of 1976. Underlying the strong June increase was a 1-1/2 per cent increase in machinery orders and a 15 per cent rise in the volatile nonvehicular transportation and communication equipment component.

Possibly presaging additional growth of investment outlays, capacity utilization in manufacturing has been edging up steadily since dipping during late 1976. The manufacturing utilization rate is estimated at 83.7 per cent in July, slightly above the 1955-75 average and within the range where manufacturers historically have expanded their facilities.

Total private housing starts edged down 6 per cent in June to a seasonally adjusted annual rate of 1.83 million units. Starts have continued on a high plateau since late last year. In the second quarter, single-family starts, at 1.42 million units, were the highest since the series began in 1959. Multifamily starts gained 5 per cent in the quarter reaching a 468,000 unit rate but still less than half the pace during the fourth quarter of 1972 when starts of subsidized units brought a surge in total multifamily units.

During the second quarter, government spending accelerated significantly. On an NIA basis, Federal spending in the second quarter rose nearly \$10 billion at an annual rate, reflecting an unusually large increase in defense shipments, higher Commodity Credit Corporation outlays, and a rise in Federal grants. Initiation

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

	1976		1977			June 76 to June 77	
	QIII	QIV	QI	QII	May	June	
<u>Contracts and orders for plant & equip.^{1/}</u>							
Current dollars	.4	6.1	6.3	12.7	10.5	-3.8	21.6
1972 dollars	-.9	4.6	4.6	11.8	9.6	-3.4	17.2
<u>New orders received by manufacturers</u>							
Total durable goods							
Current dollars	-.8	5.5	5.8	4.3	1.0	-.7	14.6
1967 dollars ^{2/}	-2.3	3.2	4.1	3.0	.9	-1.0	7.4
Nondefense capital goods							
Current dollars							
Total	5.8	1.9	6.7	4.5	2.2	4.9	24.8
Machinery	3.6	1.9	6.2	2.1	2.2	1.6	17.3
Other equipment ^{3/}	13.8	1.8	8.4	12.6	2.0	15.0	51.1
1967 dollars	4.5	.3	5.0	3.2	1.5	4.4	17.6
<u>Construction contracts for commercial and industrial buildings^{4/}</u>							
Current dollars	-1.2	16.8	.0	1.9	-5.9	13.5	17.2
Square feet of floor space	-4.9	4.8	8.5	4.6	13.1	-3.3	13.5

^{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/} Deflated by appropriate wholesale price index.

^{3/} Includes civilian purchases of nonvehicular transportation equipment, communications equipment, and ordnance.

^{4/} Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

CAPACITY UTILIZATION SERIES

Series	1967 Value-added proportion of total IP	Rates (in per cent)			
		Average for period	1973 Monthly high	1975 Monthly low	1977 QII <u>1/</u>
		1955-75			
Manufacturing	87.95	83.2	88.0	69.6	83.1
Advanced processing	57.36	82.3	85.4	70.5	82.1
Primary processing	30.59	85.0	93.6	67.8	84.8
		1967-75			
Materials	39.29	85.9	93.1	69.7	82.7
Durable goods materials	20.35	82.7	92.5	64.3	79.8
Basic metal materials	5.57	86.4	97.7	66.1	80.7
Nondurable goods materials	10.47	88.1	94.6	67.8	87.4
Textile, paper, and chemical	7.62	87.6	94.5	65.5	86.6
Textile materials	1.85	87.6	94.4	58.0	79.9
Paper materials	1.62	93.8	100.5	71.8	90.4
Chemical materials	4.15	85.6	93.8	64.7	87.6
Energy materials	8.48	91.4	94.6	82.7	83.9

1/ - Preliminary estimate.

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

	1976		1977				Per cent change ^{3/} from:	
	QIII	QIV	QI ^{1/}	QII ^{2/}	May ^{1/}	June ^{2/}	Month ago	Year ago
Single & Multifamily								
Permits	1.34	1.53	1.52	1.61	1.62	1.60	- 1	+37
Starts	1.57	1.77	1.76	1.89	1.95	1.83	- 6	+23
Under construction ^{4/}	1.11	1.19	1.24	n.a.	1.31	n.a.	+ 3	+24
Completions	1.37	1.39	1.59	n.a.	1.49	n.a.	- 3	+ 9
Single-family								
Permits	.89	1.04	1.06	1.07	1.08	1.09	+ 1	+31
Starts	1.19	1.28	1.31	1.42	1.47	1.38	- 6	+23
Under construction ^{4/}	.64	.69	.73	n.a.	.77	n.a.	+ 3	+28
Completions	1.05	1.05	1.19	n.a.	1.14	n.a.	- 7	+22
Multifamily								
Permits	.45	.49	.46	.54	.54	.51	- 5	+53
Starts	.39	.49	.45	.47	.49	.45	- 8	+21
Under construction ^{4/}	.47	.51	.51	n.a.	.53	n.a.	+ 3	+18
Completions	.32	.35	.39	n.a.	.35	n.a.	+11	-18
Mobile home shipments	.24	.25	.27	.25	.25	.26	+ 2	+11

^{1/} Revised.
^{2/} Preliminary.
^{3/} Per cent changes based on latest available data.
^{4/} Seasonally adjusted, end of period.

and expansion of a number of public works and job-related grant programs began to be reflected in State and local government spending late in the second quarter. The June value of State and local construction put-in-place increased \$0.8 billion (2-1/2 per cent) from an upward revised May level. The June increase brings the series back to mid-1976 levels, although it is still more than \$3 billion short of the 1975 peak. In addition, State and local government employment showed a 41,000 increase in July, and gains have totaled 191,000 since April. The Labor Department has indicated that Federally-subsidized public service employment has been increasing at a rate of 10,000 workers per week since mid-June. These initial gains suggest that the Administration likely will make substantial progress toward its target of raising the current level of public service jobs from about 320,000 to 600,000 by the end of September.

Excluding food and energy items, consumer prices increased by an average of 0.6 per cent per month during the three months ending in June--below the high first-quarter pace but above the average for 1976 and 1975. Food prices continued to rise at a rapid rate in June but a sharp decline in wholesale prices of farm products and foods provides room for moderation in the near term. The rise for nonfood commodities at retail slowed in June to 0.2 per cent, as prices declined for gasoline and used cars; the latter following an exceptionally large advance in the first-quarter. Prices of apparel and other nondurables, however, rose more in

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

	Relative Importance Dec. 76	1975	1976		1977			
			HI	HII	QI	QII	May	June
All items	100.0	7.0	5.0	4.8	10.0	8.1	7.3	6.6
Food	23.7	6.5	.2	.8	14.6	12.7	8.8	9.4
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	4.2	5.1	1.9
Services	37.5	8.1	8.5	6.3	9.8	9.4	8.2	9.3
Memoranda:								
All items less food and energy <u>2/3/</u>	68.9	6.7	6.9	5.5	8.3	7.1	6.9	6.9
Petroleum products ^{2/}	4.5	10.1	-2.2	9.7	7.1	7.0	9.5	0
Gas and electricity	2.9	14.2	9.8	15.4	10.7	12.1	10.4	15.4

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are at annual rate, not compounded.

2/ Estimated series.

3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

June than in other recent months. The rise in the services component continued rapid as it has all year, with large increases for electricity, water and sewerage, home maintenance and repair as well as intercity bus and railroad fares.

[The results of the July wholesale price survey will be reported in the Greenbook supplement.]

Cost pressures on prices continued to be substantial during the first half of 1977, as labor compensation increases were significantly above productivity gains. Unit labor costs averaged about 7 per cent (annual rate) in the nonfarm business sector during the first two quarters of 1977, up from just under 6 per cent during 1976. The acceleration in unit labor costs has been largely the result of a slowing of productivity gains from cyclically high 1976 rates. The unusually rapid growth in employment in recent months, along with the rebound of the workweek from the weather-depressed first quarter average, was reflected in a small drop in productivity growth in the second quarter. However, over the first half of 1977, output per hour in the nonfarm business sector grew at a 2.3 per cent annual rate--about in line with the postwar trend.

The average hourly earnings index rose at a 6-1/2 per cent annual rate in July; close to the average rise over the last 18 months. By contrast, hourly compensation in the nonfarm business sector rose at more than a 9-1/2 per cent annual rate during the first two quarters of 1977--up somewhat from the rate during 1976.

PRODUCTIVITY AND COSTS

(Per cent change from preceding quarter at a compound annual rate;
based on seasonally adjusted data)

	1976				1977		1976:QII to 1977:QII
	QI	QII	QIII	QIV	QI	QII	
<u>Output per hour</u>							
Total private business	7.6	3.2	3.0	0	6.1	-1.8	1.8
Nonfarm business	6.5	5.4	2.8	-1.8	5.0	-.4	1.4
Manufacturing	2.6	5.8	4.7	-.7	-.2	4.0	1.9
Durable	2.4	9.0	5.5	-2.4	-2.4	6.1	1.6
Nondurable	2.3	2.1	4.5	1.2	2.2	2.0	2.5
<u>Compensation per hour</u>							
Total private business	13.1	8.3	9.0	8.6	11.7	6.3	8.9
Nonfarm business	11.1	9.4	8.8	7.4	11.7	7.4	8.8
Manufacturing	12.1	9.5	6.7	7.5	13.2	6.5	8.4
Durable	12.4	9.9	5.1	5.6	13.7	7.7	8.0
Nondurable	11.1	8.2	8.6	11.1	12.1	4.2	8.9
<u>Unit labor costs</u>							
Total private business	5.1	5.0	5.8	8.7	5.3	8.2	7.0
Nonfarm business	4.4	3.8	5.8	9.4	6.3	7.9	7.3
Manufacturing	9.3	3.5	1.9	8.3	13.4	2.4	6.4
Durable	9.8	.8	-.4	8.3	16.4	1.5	6.2
Nondurable	8.6	5.9	3.9	9.8	9.7	2.1	6.3

First half increases include the effects of higher employer taxes and the final round of minimum wage adjustments from the 1974 legislation. First-year wage-rate adjustments in major collective bargaining agreements settled during the first six months of 1977 averaged 8 per cent--down moderately from last year's 8.4 per cent average. First-year wage and benefit settlements (in agreements covering 5,000 or more workers) rose faster than average wages alone and were somewhat above last year's average.

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

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	June ^{2/}	July ^{2/}
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.5	5.9	6.5
Construction	5.6	7.4	5.3	3.6	6.0	3.9	9.8	6.1
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.6	9.8	6.7
Trade	5.2	5.7	6.7	8.2	9.4	6.5	2.0	9.0
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	8.0	6.4	2.4
Services	8.3	6.6	4.8	7.8	10.9	5.4	5.3	4.3

^{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.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
 (Per cent)

	Average Adjustment		
	1975	1976	1977 (first 6 months)
Wage-rate settlements (1,000 or more workers)			
First-year adjustment	10.2	8.4	8.0
Average over life of contract ^{1/}	7.8	6.4	6.0
Wage and benefit settlements (5,000 or more workers)			
First-year adjustment	11.4	8.5	8.7
Average over life of contract ^{1/}	8.1	6.6	5.8

^{1/} Excluding cost-of-living adjustments.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Per cent at annual rates		
Monetary and credit aggregates ^{1/}					
Total reserves	July	35.39	18.1	8.2	4.6
Nonborrowed reserves	July	35.07	16.2	5.3	4.1
Money supply					
M1	July	326.8	18.3	7.9	7.1
M2	July	783.5	16.6	9.9	11.1
M3	July	1316.7	15.9	11.1	12.7
Time and savings deposits (less CDs)	July	456.8	15.7 ^{2/}	11.4 ^{2/}	14.2 ^{2/}
CDs	July	62.8	-1.1 ^{2/}	1.2 ^{2/}	-6.1 ^{2/}
Thrift deposits (S&Ls + MSBs + Credit Unions)	July	533.1	14.6	12.8	15.0
Bank credit (end of month)	July	835.9	9.3	9.6	10.6

Indicator		Latest data		Net change from:		
		Period	Per cent or index	Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	8/3/77	5.80	.45	.65	.44
Treasury bill (90 day)	"	8/3/77	5.37	.31	.72	.22
Commercial paper (90-119 day)	"	8/3/77	5.49	.11	.66	.11
New utility issue Aaa	"	8/5/77	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	8/4/77	5.63	--	-.13	-1.02
FNMA auction yield (FHA/VA)		8/8/77	8.75	.03	.05	-.26
Dividend price ratio (common stocks)	wk endg.	8/3/77	4.68	.09	.17	.98
NYSE index (12/31/65=50)	end of day	8/8/77	53.66	-2.10	-.90	-3.00

Indicator	Period	Latest Data	Net Change or Gross Offerings		
			Year ago	Year to Date	
				1977	1976
				\$ billions	
Credit demands					
Business loans at commercial banks ^{1/}	July	1.3	.7	10.5	-1.7
Consumer instalment credit outstanding ^{1/}	June	2.3	1.5	14.2	10.0
Mortgage debt outstanding (major holders) ^{1/}	May	8.2	3.8	33.4	23.8
Corporate bonds (public offerings)	July	2.4 ^e	1.2	14.5 ^e	16.2
Municipal long-term bonds (gross offerings)	July	3.1 ^e	2.7	27.4 ^e	20.3
Federally sponsored agcy. (net borrowing)	July	.6	.5	4.2	1.3
U.S. Treasury (net cash borrowing)	August	6.5	8.7	24.8	48.1

^{1/} Seasonally adjusted.

^{2/} \$ billions, not at annual rates.

e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Credit demands by domestic nonfinancial sectors have shown a mixed pattern in recent weeks. Borrowing by businesses and by State and local governments has declined. On the other hand, borrowing by the U.S. Treasury has picked up, and households have apparently continued to raise large amounts of funds in both the consumer credit and home mortgage markets.

Growth of the monetary aggregates accelerated sharply in July. M_1 expanded at more than double the substantial second quarter rate and, with a strengthening of time and savings deposits, M_2 and M_3 also surged. Since late July, as the strength in the aggregates has become apparent to market participants and as the Federal funds rate has moved up to around 5-3/4 per cent from 5-3/8 per cent, market interest rates particularly on short- and intermediate-term issues have come under significant upward pressure. On balance, rates on these issues have increased about 20 to 35 basis points since the July FOMC meeting. Yields on Treasury bonds have increased by about 5 to 10 basis points over this period, while those on corporate and municipal bonds changed little.^{1/} Thus, the shift toward a flatter yield curve that began earlier this year has continued. Stock price indexes have declined somewhat in the intermeeting period.

^{1/} Corporate and municipal yields shown in the table are as of late last week and, thus, do not reflect more recent market developments.

SELECTED FINANCIAL MARKET QUOTATIONS
(Per cent)

	1976 ^{1/}		1977 ^{2/}				Change from:	
	May-June	December	June	July	Aug.	Aug.	June	July
	High	Low	FOMC 21	FOMC 19	Aug. 2	Aug. 9	FOMC	FOMC
<u>Short-term rates</u>								
Federal funds ^{1/}	5.58	4.63	5.43	5.35	5.80	5.73 ^{3/}	.30	.38
Treasury bills								
3-month	5.53	4.27	5.03	5.22	5.40	5.53	.50	.31
6-month	5.93	4.50	5.23	5.45	5.70	5.81	.58	.36
1-year	6.32	4.62	5.42	5.56	5.82	5.92	.50	.36
Commercial paper								
1-month	5.65	4.48	5.30	5.25	5.40	5.45	.15	.20
3-month	5.90	4.63	5.40	5.38	5.55	5.63	.23	.25
Large negotiable CD's ^{4/}								
3-month	5.95	4.60	5.40	5.35	5.70	5.70	.30	.35
6-month	7.00	4.71	5.60	5.65	6.05	6.10	.50	.45
Bank prime rate	7.25	6.25	6.75	6.75	6.75	6.75	0	0
<u>Intermediate- and Long-term rates</u>								
Corporate								
New AAA ^{5/}	8.95	7.93	8.01	8.14	8.17	--	--	--
Recently offered ^{6/}	8.84 ^{7/}	7.84	8.06	8.12	8.14	8.10P	.04	-.02
Municipal								
(Bond Buyer) ^{8/}	7.03 ^{9/}	5.83	5.55	5.64	5.62	5.63	.08	-.01
U.S. Treasury								
(Constant maturity)								
3-year	7.52	5.64	6.35	6.54	6.75	6.79	.44	.25
7-year	7.89	6.32	7.01	7.12	7.29	7.29	.28	.17
20-year	8.17	7.26	7.65	7.62	7.67	7.68	.03	.06
<u>Stock prices</u>								
	Jan. Low	Dec. High	FOMC June 21	FOMC July 19	Aug. 2	Aug. 9	June FOMC	July FOMC
Dow-Jones Industrial	881.51	994.18 ^{10/}	928.60	919.29	887.39	879.42	-49.18	-39.
N.Y.S.E. Composite	49.06	56.96	55.09	55.70	53.93	53.67	-1.42	-2.
AMEX	86.42	107.26	117.86	124.21	119.98	120.23	2.37	-3.
Keefe Bank Stock ^{6/}	520	664	618	638	634	631	13	

^{1/} Daily average for statement week.

^{2/} One day quotes except as noted.

^{3/} Average for first 6 days of statement week ending August 10.

^{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 the year was 1003.87 in statement week ending September 29.

Monetary Aggregates and Bank Credit

Growth of M_1 accelerated to an 18.3 per cent annual rate in July, following increases of 4.5 per cent in June and 8.4 per cent for the second quarter. Some special factors contributed to the surge in July, such as early delivery of Social Security checks, disrupted check clearings resulting from the New York power failure, and abnormally large deposits of foreign commercial banks in mid-month. However, these transitory influences probably accounted for no more than 4 or 5 percentage points of last month's vigorous growth, so that the underlying demand for money apparently was quite strong.

The annual rate of M_2 expansion in July of 16.6 per cent was twice that of June and well above the average second quarter pace. Growth of commercial bank savings deposits advanced, following a decline in June, and time deposits (excluding large negotiable CD's) continued to expand in July at the previous month's rapid pace. Deposit flows to thrift institutions, particularly S&L's, also increased sharply during the month, and M_3 expanded at a 16 per cent annual rate.

After contracting in June, savings deposits at commercial banks (line 6 of table) expanded modestly in July; the June-July average growth rate was just under 3 per cent. The expansion of total savings deposits at banks seemed to be tempered by a decline in savings deposits of businesses and State and local governments

August 8, 1977

III - 4

MONETARY AGGREGATES^{1/}
(Seasonally adjusted)^{1/}

	1976	1977			1977	
	QIV	QI	QII	June	July	through July
<u>Net changes at annual rates, per cent</u>						
<u>Major monetary aggregates</u>						
1. M ₁ (Currency plus demand deposits)	6.5	4.2	8.4	4.5	18.3	7.9
2. M ₂ (M ₁ plus time and savings deposits at commercial banks other than large CDs)	12.5	9.9	9.2	8.1	16.6	10.0
3. M ₃ (M ₂ plus all deposits at thrift institutions)	14.4	11.3	10.0	9.8	15.9	11.0
<u>Bank time and savings deposits</u>						
4. Total	12.2	12.5	8.3	13.2	11.2	9.9
5. Other than large negotiable CDs	17.1	14.0	9.8	10.7	15.7	11.6
6. Savings deposits	24.7	21.9	7.9	-2.3	7.9	9.6
7. Individuals ^{2/}	18.8	16.0	8.3	1.2	14.0	10.0
8. Other ^{3/}	136.5	103.0	2.5	-40.7	-67.1	4.1
9. Time deposits ^{4/}	10.8	7.1	11.6	22.5	22.6	13.4
10. Small time ^{5/}	27.5	7.9	14.2	10.5	17.0	13.3
11. Large time ^{4/}	-21.2	6.2	5.3	47.9	35.1	13.6
<u>Deposits at nonbank thrift institutions</u>						
12. Total	17.3	13.4	11.2	12.2	14.6	12.5
13. Savings and loan assoc.	18.8	14.7	12.3	13.0	15.7	13.7
14. Mutual savings banks	12.8	9.2	6.7	8.2	10.2	8.0
15. Credit unions	18.8	16.2	14.5	17.7	19.9	16.2
<u>Average monthly changes, \$ billions</u>						
<u>Memoranda:</u>						
16. Total US Govt. deposits	-0.3	0.0	-0.4	-0.5	1.7	0.1
17. Negotiable CDs	0.1	-0.4	0.6	1.6	-1.1	-0.1
18. Nondeposit sources of funds ^{7/}	3.1	0.4	1.1	-0.3	0.0	0.8

- ^{1/} Quarterly growth rates are computed on a quarterly average basis.
- ^{2/} Savings deposits held by individuals and nonprofit organizations.
- ^{3/} Savings deposits of businesses, governments, and others, not seasonally adjusted.
- ^{4/} Excluding negotiable CDs at weekly reporting banks.
- ^{5/} Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
- ^{6/} Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
- ^{7/} The Nondeposit sources of funds series on line 18 is a new series which replaces a series of the same title. The new series represents nondeposit borrowings of commercial banks from nonbank sources. It includes Federal funds purchased and security RPs plus other liabilities for borrowing money plus the old nondeposit sources of funds series (mainly Eurodollar borrowings and loans sold) less interbank loans.

combined (line 8), but this decline may be at least in part a seasonal phenomenon,^{1/} distorting the total deposits series to some extent.

In contrast to moderate growth of savings deposits, time deposits other than large negotiable CD's (line 9) increased during July at a 23 per cent annual rate, the same as in June. Similarly, time deposit growth at S&L's has approached 20 per cent in recent months, compared with sluggish passbook account growth generally below 5 per cent, although July figures are not yet available. The spreads between time deposit rate ceilings and comparable security yields have been quite sizable, while most short-term market rates have risen close to or above savings deposit rate ceilings at commercial banks and thrifts. The strength in time deposits also may have resulted in part from more vigorous promotion of longer-term deposits by financial institutions and from increases in offering rates to levels at or near regulatory ceilings in order to attract and hold funds from maturing "wild-card" deposits.

With total deposit flows stronger, banks reduced their dependence on large negotiable CD's (line 17) in July, following a temporary second quarter upturn. A few large banks had issued an appreciable volume of CD's during June for window-dressing purposes, and subsequently allowed such deposits to decline. Nondeposit sources of funds (line 18), mainly Federal funds and RP's, which had

^{1/} Last year, in June and July, the sum of business and State and local government savings deposits also showed large declines.

been expanding counter to the downtrend in large CD's since mid-1975, were unchanged in July.^{1/}

Commercial bank credit expanded at an annual rate of 9-1/4 per cent in July, slightly above the June pace. The largest rate of decline in holdings of Treasury securities since October 1974 was only partly offset by an increase in holdings of other securities. But total bank loans grew at the fastest rate of the year. Real estate loans apparently continued to expand almost as strongly as in June, while business loan growth, at 8 per cent, was well below its June rate.

Business Credit

The slowing of business loan growth at banks was concentrated at large banks, primarily in loans to manufacturing firms and public utilities. An informal Reserve Bank survey of large money center banks indicated that such banks are making a greater proportion of their business loans to small and medium-sized firms, while demand for bank loans by large firms remains soft. Nevertheless, the bankers contacted reported an unwillingness to lower the prime rate relative to their cost of funds, partly due to reductions in earnings that would result on existing floating rate loans. It was also reported that intensifying competition for loans to smaller firms is being reflected in a narrowing of spreads for non-prime borrowers between actual lending rates and the prime rate. In addition, more firms are

^{1/} The Supplement will contain a discussion of a new series on nondeposit liabilities.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)^{1/}

	1976	1977					1977 through July
	QIV	QI	QII	May	June	July	
<u>Total loans and investments</u> ^{2/}	11.2	9.5	11.2	10.3	8.9	9.3	10.4
Investments	5.6	10.6	10.3	12.2	5.6	-5.6	8.2
Treasury securities	10.1	25.9	6.6	21.0	8.0	-27.4	9.9
Other securities	2.7	0.5	12.9	6.3	3.9	9.4	7.2
<u>Total loans</u> ^{2/}	13.7	9.1	11.5	9.4	10.4	16.0	11.3
Business loans ^{2/}	12.0	8.1	11.9	6.4	15.3	8.2	9.9
Real estate loans	9.9	12.6	15.1	13.1	17.6	14.3	14.3
Consumer loans ^{3/}	14.3	10.3	14.6	9.1	15.8	n.a.	n.a.

Memoranda:

1. Commercial paper issued by nonfinancial firms ^{4/}	28.9	15.0	59.3	20.8	48.3	-15.4	30.3
2. Business loans at banks, plus nonfinancial commercial paper	13.1	8.6	15.1	7.4	17.7	6.4	11.3
3. Business loans at banks, plus business loans at finance companies, plus nonfinancial commercial paper	13.8	10.8	16.6	11.5	18.1	n.a.	n.a.

^{1/} Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

^{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 subsidiaries of holding companies.

^{3/} Consumer loans revised in accordance with major revisions in Consumer Credit Statistics.

^{4/} Measured from end-of-month to end-of-month.

n.a.—not available

qualifying for prime rate status, and fixed rate loans are becoming more widely available. Some of the bankers also said that compensating balances are being less rigidly enforced. The February and May Surveys of Terms of Bank Lending, which show declines in rates on intermediate-size short-term business loans, tend to substantiate the finding of increased competitiveness for small business loans.

Meanwhile, outstanding commercial paper of nonfinancial businesses contracted in July (memo item 1 in table), as some large issuers reportedly replaced maturing commercial paper with longer-term debt.^{1/} Taken together, business loans at banks and non-financial commercial paper (memo item 2) expanded at a 6-1/2 per cent rate in July, following a gain of 15 per cent in the second quarter and of 17-3/4 per cent in June. Business loans at finance companies, which had grown at more than a 20 per cent annual rate during the first half, also may have slowed somewhat in July, according to limited company reports.

Gross issues of publicly offered corporate bonds totaled \$2.4 billion in July, above the \$1.9 billion monthly average recorded in the second quarter and the \$2.3 billion offered in June. July's slate of offerings was bolstered by the largest volume of industrial issues since last December; utility offerings, however, were below their advanced second quarter pace.

^{1/} The substitution of longer-term debt for commercial paper also characterized the much larger financial issuer component of the non-bank commercial paper market. The major auto finance companies, for example, substantially reduced their commercial paper outstanding.

Prime-rated (Aaa and Aa) publicly offered bond issues accounted for almost two-thirds of July's offerings, extending the pattern that has characterized public bond offerings in 1977. Major underwriters report that many lower-rated corporations are continuing to place their debt in the private market, where interest rate relationships remain favorable and major investors (primarily life insurance companies) continue to have an abundance of available funds. Despite the substantial volume of corporate bonds placed, yields have changed little since the last FOMC meeting.

Stock prices have moved generally lower since the last FOMC meeting, despite the apparent improvement in overall corporate profits during the second quarter. Concern over possible slowing of economic expansion, the large U.S. trade deficit, and the outlook for interest rates were cited by market professionals as contributing to the weakness in equity prices.

The erosion in stock prices since year-end 1976 has been most pronounced for a relatively small number of highly capitalized industrial companies listed on the N.Y.S.E.--firms whose share price movements tend to dominate the most widely followed stock price indexes.^{1/} Many of these "growth" stocks had shown above average price-earnings ratios and have paid little or no dividends in recent

^{1/} Composite share price indexes of American Stock Exchange and NASDAQ-listed securities, as well as major N.Y.S.E. utility and transportation indexes, have declined only slightly over the intermeeting period, and are still near their highest levels since early 1973.

SECURITY OFFERINGS

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

	1976						
	Year	QI	QII ^{e/}	June ^{e/}	July ^{e/}	Aug. ^{f/}	Sept. ^{f/}
<u>Gross Offerings</u>							
Corporate securities--Total	4,445	4,064	3,796	4,400	4,000	3,200	2,900
Publicly offered bonds	2,204	2,166	1,854	2,300	2,400	1,700	1,400
By quality ^{1/}							
Aaa and Aa	1,050	1,230	1,064	1,540	1,550	--	--
Less than Aa ^{2/}	1,154	936	790	760	850	--	--
By type of borrower							
Utility	675	734	772	1,060	450	--	--
Industrial	874	707	452	345	1,200	--	--
Other	655	725	630	895	750	--	--
Privately placed bonds	1,317	1,026	1,096	1,200	1,000	900	900
Stocks	924	872	847	900	600	600	600
By type of borrower							
Utility	575	590	550	650	400	--	--
Industrial	282	198	207	125	175	--	--
Other	67	84	90	125	25	--	--
Foreign securities--Total	852	443	777	1,125	1,126	--	--
Publicly offered ^{3/}	520	286	600	850	935	200	300
Privately placed	332	157	177	275	191	--	--
State and local gov't. securities--Total	4,756	5,152	7,438	7,913	4,400	4,500	4,800
Long-term	2,932	3,565	4,522	5,700	3,100	2,900	3,000
Short-term	1,824	1,587	2,916	2,213	1,300	1,600	1,800
<u>Net Offerings</u>							
U.S. Treasury	4,850	4,703	-1,717	-300	685	3,993	600
Sponsored Federal agencies	361	734	561	810	29	85	1,440

^{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.

years. Although some of these companies have suffered interruptions in their per share earnings growth or other set-backs in recent months, it also appears that investors have been reevaluating the longer-term prospects for such businesses. In addition, market professionals have indicated that dividend yields have become a more important measure of financial strength in recent months.

Treasury and Municipal Securities Markets

The Treasury has borrowed more actively in recent weeks, raising about \$1.5 billion of new money through the sale of 2-year notes, and another \$3.0 billion in new money through sales of 3- and 7-year notes and 29-1/2 year bonds in connection with the mid-August refunding.^{1/} The immediate interest rate impact of the Treasury's activities was minimized by the fact that they had been well-anticipated and dealers had taken large short positions in coupon issues in preparation for the refunding (and possibly in expectation of a Federal funds rate increase). No further paydown of Treasury bills has taken place since the July FOMC meeting, following the \$9 billion runoff in the second quarter and \$800 million runoff in early July.

Since the last FOMC meeting, yields on Treasury bills have increased by about 30 to 35 basis points while coupon yields are up by around 5 to 25 basis points. These advances took place in the

^{1/} The Treasury raised an additional \$900 million through sales of the new issues to foreign official accounts bidding noncompetitively.

RECENT MOVEMENTS IN STOCK PRICES

Index	12/31/76	3/31/77	8/8/77
	<u>Levels</u>		
Dow Jones Industrials	1004.65	919.13	879.42
N.Y.S.E.: Industrials	63.36	58.13	57.36
Utilities	41.27	39.93	41.93
Transportation	42.57	40.03	41.34
A.S.E. Composite	109.84	111.17	120.17
NASDAQ Composite	97.88	94.13	100.55
<u>Per cent changes</u>			
	12/31/76 to 3/31/77	3/31/77 to 8/8/77	12/31/76 to 8/8/77
Dow Jones Industrials	-8.5	-4.3	-12.5
N.Y.S.E.: Industrials	-8.3	-1.3	- 9.5
Utilities	-3.2	+5.0	+ 1.6
Transportation	-6.0	+3.3	- 2.9
A.S.E. Composite	+1.2	+8.1	+ 9.4
NASDAQ Composite	-3.8	+6.8	+ 2.7

TOTAL MARKET VALUE OF ALL NYSE- AND ASE-LISTED STOCKS
CLASSIFIED BY PRICE-EARNINGS RATIOS 1/

Price-Earnings Ratio	Total Market Value (\$ bils.)		Per Cent Change
	12/31/76	7/8/77 <u>2/</u>	
Less than 6.00	36.9	49.7	+34.7
6.0 to 7.99	86.8	89.0	+ 2.5
8.0 to 9.99	239.9	236.1	- 1.6
10.0 to 11.99	130.2	128.7	- 1.2
12.0 to 13.99	83.3	76.3	- 8.4
14.0 to 15.99	67.7	61.3	- 9.5
16.0 to 17.99	48.9	45.0	- 8.0
18.0 to 19.99	76.1	66.5	-12.6
Greater than 19.99	<u>76.7</u>	<u>65.6</u>	<u>-14.5</u>
Total	846.5	818.2	- 3.3

1/ As of 12/31/76.

2/ Latest data available.

wake of the upward movement in the Federal funds rate and the release of information about the acceleration of the monetary aggregates.

Gross offerings of long-term State and local government debt fell to approximately \$3.1 billion in July--a greater than seasonal decline from the \$5.7 billion June figure, and the \$4.0 billion monthly average in the first half of 1977. Municipalities apparently concentrated their offerings in the first half of this year in anticipation of higher rates later in the year. Advance refunding issues accounted for a somewhat smaller share of the municipal volume than in the preceding several months.

The heavy volume of State and local debt offerings in the last several quarters does not imply a commensurate increase in State and local expenditures as recorded in the NIA accounts. Indeed, besides advance refunding of outstanding debt, State and local governments apparently have been using a significant portion of their bond proceeds for relending or for acquiring facilities constructed by the private sector.^{1/} An examination of prospectuses and other information representing about 68 per cent of April's gross offering

^{1/} State agencies may issue long-term bonds at tax-exempt rates and then lend the money to the private sector to finance construction or make mortgage loans for low- and moderate-income housing at rates below those available from conventional sources. Hospital financing and loan programs aiding veterans are similar examples of State and local financing not directly related to State and local capital spending. Port facilities constructed by oil companies in Valdez, Alaska have been financed in the tax-exempt market and private companies also continue to take advantage of tax-exempt bond financing for pollution control.

volume shows that nearly two-thirds was for purposes that do not show up as NIA State and local expenditures.

Mortgage and Consumer Loans

Growth in mortgage debt outstanding apparently picked up somewhat further during July from the record rate estimated for the second quarter. Mortgage loans at commercial banks increased about \$2 billion--somewhat below the June figure but about equal to the monthly average for the second quarter. Moreover, new issues of GNMA-guaranteed mortgage-backed securities increased in July to \$1.4 billion, some 10 per cent higher than the average for the first six months of the year. At savings and loan associations, which have accounted for about half of total mortgage debt formation in recent periods, record commitments in June and strong deposit flows in July suggest that net mortgage lending by the S&L's may have increased further from the record June pace. Mutual savings banks also have begun to channel more funds into residential mortgages after a long lag, and life insurance company investments in large income property mortgages--primarily commercial--have been picking up.

Average interest rates on new commitments for conventional home loans at S&L's have changed little since the last FOMC meeting, and remain about 30 basis points above their cyclical low in March. However, reflecting developments in the bond markets since late July, yields on GNMA-guaranteed securities have backed up by about 10 basis points. Moreover, the volume of bidding in the early August

III - 15
 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
1977--High	8.95	--	+84	14
Low	8.65	--	+37	2
1977--Mar.	8.70	+ 5	+48	2
Apr.	8.78	+ 8	+47	11
May	8.85	+ 7	--	12
June	8.88	+ 3	+81	8
July 1	8.95	+ 7	--	10
8	8.93	- 2	+79	11
15	8.95	+ 2	+81	12
22	8.95	0	+83	9
29	8.93	- 2	+76	7
Aug. 5	8.95	+ 2	--	

^{1/} 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	123	83	8.81	76	50	8.46	7.56
July 4							7.93
11	164	102	9.08	131	77	8.72	7.97
18							7.95
25	123	83	9.06	76	54	8.71	7.93
Aug. 1							8.04
8	200	144	9.06	195	143	8.75	8.04

^{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.

^{2/} 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.

FNMA auction of forward commitments to purchase FHA/VA home mortgages increased substantially--due in part to the deterioration of GNMA prices--and average yields on accepted bids rose by 4 basis points.

The speculative home buying that was reported in some parts of California during the early months of this year has apparently moderated. Citing improvements in data on regional mortgage activity since April, the Federal Home Loan Bank of San Francisco lowered the rates charged on advances to member associations by 25 basis points, effective July 25. These rates had been raised by a full percentage point in late April in an attempt to discourage lending for speculative purposes. Both loan closings and mortgage commitments outstanding at S&L's in the San Francisco district declined, seasonally adjusted, in May and June.

Consumer instalment credit outstanding, based on newly revised series, expanded at a \$27 billion or 14 per cent annual rate in June, off somewhat from the preceding two months. A pickup in repayments, responding to earlier strength in extension, tended to retard the growth of credit outstanding. Nevertheless, the second quarter 16 per cent annual growth rate was among the strongest quarterly expansions since the mid-1950's, when the outstanding credit base was much smaller. With continued strong new-car sales in July and firmness in other consumer durable goods sales, the June growth rate in outstandings was probably at least maintained in July.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 ^{1/}			
				QI	QII	May	June
Total							
Change in outstandings ^{2/}							
Billions of dollars	8.9	7.3	19.9	26.5	30.3	30.2	27.4
Per cent	6.1	4.7	12.3	14.6	16.0	15.8	14.1
Bank share (per cent)	41.5	39.6	54.0	44.0	49.2	43.6	56.2
Extensions ^{2/}							
Billions of dollars	147.0	163.9	192.4	211.2	221.3	217.1	223.4
Bank share ^{2/} (per cent)	46.2	47.2	48.9	48.0	48.3	47.9	48.5
Liquidations ^{2/}							
Billions of dollars	148.0	156.6	172.4	184.7	191.0	186.9	196.0
Ratio to disposable income	15.2	14.4	14.6	14.7	14.7	14.6	14.8
Automobile Credit							
Change in outstandings ^{2/}							
Billions of dollars	0.3	3.2	10.2	12.1	13.0	14.3	10.8
Per cent	0.6	6.1	18.3	18.3	18.9	20.3	15.2
Extensions ^{2/}							
Billions of dollars	45.3	51.5	62.8	69.3	71.9	71.7	71.7
New car loans over 36 months as per cent of total new car loans							
Commercial banks ^{3/}	8.8	14.0	25.4	36.3	38.9	38.9	n.a.
Finance companies	8.6	23.5	33.9	41.5	45.1	44.9	45.4
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	10.82	10.81	10.82
Finance companies	12.61	13.11	13.17	13.15	13.12	13.11	13.12

^{1/} Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

^{2/} Data are revised to reflect new historical benchmarks and other information.

^{3/} 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.

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

August 10, 1977

IV - T - 1

	1976				1977	
	YEAR	Q4	Q1	Q2	May	June
1. Merchandise exports	114,695	29,710	29,476	30,521	10,416	10,131
2. Merchandise imports	123,918	33,293	36,456	38,315	12,123	13,375
3. <u>Trade Balance</u>	-9,223	-3,583	-6,980	-7,794	-1,707	-3,244
4. <u>Bank-reported private capital flows</u>	-9,922	-4,140	-1,882	1,579	533	-1,342
5. Claims on foreigners (increase -)	-20,904	-9,148	3,398	-5,373	-2,098	-2,331
6. Long-term	-2,124	-480	-541	-7	171	79
7. Short-term	-18,780	-8,668	3,939	-5,366	-2,269	-2,410
8. (of which on commercial banks in offshore centers 2/)	(-12,599)	(-4,318)	(1,999)	(-3,635)	(-1,743)	(-1,531)
9. Liabilities to foreigners (increase +)	10,982	5,008	-5,280	6,952	2,631	989
10. Long-term	175	221	76	86	94	-23
11. Short-term	10,807	4,787	-5,356	6,866	2,537	1,012
12. to commercial banks abroad	8,078	2,795	-4,508	4,519	866	1,151
13. (of which to commercial banks in offshore centers 3/)	(4,146)	(2,867)	(-3,309)	(4,021)	(183)	(1,057)
14. to other private foreigners	2,719	1,178	366	675	531	232
15. to int'l and regional organizations	10	814	-1,214	1,672	1,140	-371
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,783	-89	1,047	-1,272	-153	47
17. <u>Other private securities transactions (net)</u>	-7,480	-2,150	230	-952	-646	-457
18. Foreign net purchases (+) of U.S. corp. securities	1,250	21	879	728	228	299
19. (of which stocks)	(853)	(-174)	(376)	(384)	(138)	(122)
20. U.S. net purchases (-) of foreign securities	-8,730	-2,171	-649	-1,680	-874	-756
21. (new foreign issues of bonds and notes)	(-9,954)	(-2,491)	(-1,272)	(-1,924)	(-968)	(-808)
22. <u>Change in foreign official res. assets in the U.S.</u>	13,016	6,108	5,042	6,508	1,869	1,575
23. OPEC countries (increase +)	6,750	555	2,704	839	454	-943
24. (of which U.S. corporate stocks)	(1,828)	(308)	(160)	(324)	(91)	(135)
25. Other countries (increase +)	6,266	5,553	2,338	5,669	1,415	2,518
26. <u>Change in U.S. reserve assets (increase -)</u>	-2,530	228	-391	28	-329	85
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	13,356	3,626	2,934	1,903	433	3,336
28. Other current account items	8,357	2,102	2,701			
29. Military transactions, net 4/	-34	120	-18			
30. Receipt of income on U.S. assets abroad	21,369	5,421	6,067			
31. Payment of income on foreign assets in U.S.	-11,561	-2,997	-2,897			
32. Other services, net	2,743	598	556			
33. Remittances and pensions	-1,878	-473	-518			
34. U.S. Gov't grants 4/	-2,282	-567	-489			
35. Other capital account items	-4,761	-1,808	-425			
36. U.S. Gov't capital, net claims 4/ (increase -)	261	-180	72			
37. U.S. direct investment abroad (increase -)	-4,596	-822	-532			
38. Foreign direct investment in U.S. (increase +)	2,176	403	827			
39. Nonbank-reported capital, net claims (increase -)	-2,602	-1,209	-792			
40. Statistical discrepancy	9,760	3,332	658			
MEMO:						
41. Current account balance 4/	-866	-1,481	-4,279	n.a.	n.a.	n.a.
42. Official settlements balance	-10,486	-6,336	-4,651	-6,536	-1,540	-1,660
43. O/S bal. excluding OPEC	-3,136	-5,781	-1,947	-5,697	-1,086	-2,603

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.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The downward pressure on the dollar which had developed at the end of June was reversed at the end of July, and over the past three weeks the dollar's average exchange value increased by 1 per cent, recovering about half of its decline of the previous month.

The recent recovery of the dollar was triggered in the last week of July by statements of U.S. officials emphasizing the importance of a strong dollar, and by a firming of short-term U.S. interest rates. The subsequent rise of the dollar has been greatest against the European snake currencies, the Swiss franc, and the Japanese yen. Against the mark, the dollar has appreciated by over 3 per cent, following a decline against the mark of nearly 5 per cent the previous month. Earlier in July, when the dollar was under downward pressure against the mark, the System made intervention sales of marks totaling \$80 million equivalent, financed in part by swap drawings on the Bundesbank of \$35 million equivalent. The System repaid these swap drawings in full on August 8, using marks purchased in the New York market as the dollar moved back up.

Within the European joint float, the Swedish krona and, to a lesser extent, the Danish and Norwegian currencies have continued to experience periods of intense downward pressure.

The Canadian dollar came under selling pressure late in July, and has since fallen against the U.S. dollar by 1-1/2 per cent to its lowest level since 1969. This latest downward pressure on the Canadian currency was sparked by rising U.S. interest rates and Finance Minister Macdonald's admission that the Government's target of a 6 per cent inflation rate in the second year of the controls program will not be achieved.

July 27, the Bank of England announced that it would allow sterling to rise above its previous de facto ceiling of \$1.72. The pound immediately appreciated by over 1 per cent against the dollar, then stabilized slightly below \$1.74, where it has remained so far this month

On August 5, the Bank of England reduced its Minimum Lending Rate by 1/2 percentage point to 7-1/2 per cent -- one-half the peak 15 per cent level of last Fall and the lowest level for the MLR since 1973.

International capital markets. Total borrowing in the Euro-credit, Euro-bond, and foreign bond markets in the second quarter was somewhat below the first-quarter level. The approximately \$30 billion of such borrowing in the first half of 1977, while very high by pre-1976 standards, was 4 per cent below the second half of last year. A considerable decrease in Euro-credits in the second quarter was only partially offset by a further rise in Euro-bond issues and an upturn in foreign bond issues.

Medium-term Euro-currency bank credits of \$6.0 billion arranged in the second quarter were down 25 per cent from the first, as borrowers in developed countries borrowed less and oil-exporting countries were almost wholly absent from the market. Reduced borrowings by these two groups essentially reflected the fact that the governments of the United Kingdom, Sweden, and Venezuela, which had borrowed large amounts (\$3.7 billion in all) in the first quarter, did not tap the market in the ensuing months. French borrowings have continued to run well above last year's rate and totaled \$750 million in the second quarter, of which \$600 million was borrowed by Electricite de France for eight years to backstop U.S. commercial paper issues. Denmark, continuing to run large external deficits, arranged a \$500 million 7-year Euro-loan in June, bringing Danish Government Euro-credits to \$0.7 billion in the first six months of this year.

Non-oil developing countries contracted substantially more Euro-credits in the second quarter than in the first. The rise reflected

three new credits totaling over \$1 billion to Brazilian borrowers, the largest being to the Government oil company and the new Brazilian steel company Acominas. However, total first-half borrowings by non-oil LDC's were considerably below last year's second-half and about equal to the first-half 1976 rate. Credits to the centrally-planned (Communist) economies continued to run well below 1976 rates.

Euro-bond issues were at new record levels in the second quarter, and the nearly \$10 billion total for the first half of 1977 was almost one-third above last year's average half-yearly rate. Canadian and French issues have continued below the levels of the first half of last year. On the other hand, increased amounts have been raised on the market this year, especially in the second quarter, by borrowers in a number of European countries and the United States. The market has been more receptive to British issues this year because of Britain's improved external finances and the governments of Sweden and Denmark have turned to the bond market as an additional source of funds to meet payments imbalances. In addition, banks in many European countries have participated in the growing number of issues by commercial banks of medium-term notes, frequently carrying variable interest rates, to improve their capital position. Euro-bond issues by developing countries rose again in the second quarter and, while still a small part of total issues, have contributed to the growth of issue activity this year.

The second quarter saw a sharp rebound in foreign bond issues as flotations by the IBRD and by other non-Canadian borrowers picked up. This was reflected in increased foreign issues in the United States. However, the \$6.3 billion first-half total of foreign issues still trailed last year's issue rates (notably the first half) by a wide margin. The IBRD has been borrowing less this year than last, and, apart from the Quebec political situation, Canadian foreign borrowing has reflected reduced needs for new long-term funds by some Canadian entities and relatively heavier use of the domestic capital market for interest rate or other reasons.

Borrowing in International Capital Markets
(in billion of dollars)

	<u>1975</u>	<u>1976</u>		<u>1977</u>			
	<u>Year</u>	<u>Year</u>	<u>1st H</u>	<u>2nd H</u>	<u>1st H</u>	<u>Q-1</u>	<u>Q-2</u>
I. Medium-term Euro-credits: ^{1/} total	20.6	29.0	12.3	16.7	14.2	8.1	6.0
Developed countries	6.6	10.2	3.9	6.3	6.9	4.4	2.5
Denmark	.3	.8	.4	.4	.7	.2	.5
France	.5	.8	.7	.1	1.5	.8	.8
Spain	1.0	1.9	.3	1.6	.5	.2	.3
Sweden	.3	.4	.1	.3	1.0	1.0	0
United Kingdom	.6	2.2	1.0	1.2	1.7	1.6	.2
Other	4.2	4.1	1.4	2.7	1.5	.6	.8
Oil-exporting countries	3.2	4.2	1.7	2.5	2.0	1.7	.3
Algeria	.5	.6	.4	.2	*/	*/	0
Indonesia	1.6	.5	.3	.2	0	0	0
Iran	.2	1.4	.7	.7	.3	.3	0
Venezuela	.2	1.0	0	1.0	1.2	1.2	0
Other	.7	.7	.3	.4	.5	.2	.3
Other developing countries	7.7	11.2	4.5	6.7	4.6	1.9	2.7
Argentina	*/	1.1	.1	1.0	.2	*/	.2
Brazil	2.1	3.4	1.2	2.2	1.1	.1	1.0
Mexico	2.2	1.9	.7	1.2	1.0	.5	.6
Philippines	.3	.9	.7	.2	.2	.2	0
Other	3.1	4.1	1.8	2.3	1.9	1.1	.3
Centrally-planned economies	2.7	2.5	1.4	1.1	.7	.2	.5
International org's & other	.4	.9	.9	0	0	0	0

IV - 7

	1975	1976		1977			
	Year	Year	1st H	2nd H	1st H	Q-1	Q-2
II. Euro-bonds: total	10.2	15.0	8.4	6.6	9.9	4.7	5.2
Canada	1.2	2.9	1.9	1.0	1.2	.4	.8
France	1.3	1.3	.8	.5	.6	.4	.1
Japan	1.2	1.2	.7	.5	.5	.3	.3
Other dev'd countries	4.7	5.8	2.5	3.3	4.7	1.9	2.9
Developing countries	.2	.7	.3	.4	.9	.4	.5
Int'l org's & other	1.6	3.1	2.2	.9	2.0	1.3	.7
III. Foreign bonds: total	11.9	17.9	9.5	8.4	6.3	2.8	3.5
By borrower: Canada	3.4	5.9	3.4	2.5	1.5	.8	.6
IBRD	2.4	3.0	1.6	1.4	1.3	.3	.9
Other	6.1	9.0	4.5	4.5	3.6	1.6	2.0
By market: U.S. ^{2/}	6.8	10.0	5.4	4.6	3.6	1.3	2.3
Switzerland	3.4	5.2	2.6	2.6	1.8	1.3	.5
Other	1.7	2.7	1.5	1.2	.9	.2	.7

^{1/} Completed credits of one year or over.

^{2/} Figures may differ from statistics of U.S. international transactions because latter are on a drawdowns basis.

Source: World Bank

U.S. International Transactions in the Second Quarter. The merchandise trade deficit for 1977-Q2 widened to a seasonally adjusted annual rate of \$31 billion as an increase in exports (about \$4 billion at an annual rate) was more than offset by a \$7 billion annual rate increase in imports (see summary table below). Private capital flows for which we have data show a net outflow of about \$0.6 billion. OPEC net investments in the U.S. totalled \$0.8 billion for the second quarter, off sharply from the \$2.7 billion inflow during the first quarter. Thus, most of the net capital inflow which matched our current account deficit, which we estimate to have been about \$5 billion at a quarterly rate, was from foreign official institutions other than OPEC (see summary table below). The increase in foreign official claims on the U.S. resulted from exchange market intervention by several foreign central banks (see discussion of exchange markets in this greenbook).

Summary of
U.S. Merchandise Trade, International Account Basis
(billions of dollars, seasonally adjusted annual rates)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	
	<u>Year</u>	<u>Year</u>	<u>1Q</u>	<u>2Q</u>
<u>EXPORTS</u>	<u>107.1</u>	<u>114.7</u>	<u>117.9</u>	<u>122.1</u>
Agric.	22.2	23.4	24.5	26.7
Nonagric.	84.8	91.3	93.4	95.4
<u>IMPORTS</u>	<u>98.0</u>	<u>123.9</u>	<u>145.8</u>	<u>153.3</u>
Petroleum	27.0	34.6	44.3	47.7
Nonpetroleum	71.0	89.3	101.5	105.5
<u>BALANCE</u>	<u>+9.0</u>	<u>-9.2</u>	<u>-27.9</u>	<u>-31.2</u>

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

Summary of Selected U.S. Capital Transactions
(billions of dollars, outflow (-))

	<u>1975</u>	<u>1976</u>	<u>1977</u>	
	<u>Year</u>	<u>Year</u>	<u>1Q</u>	<u>2Q</u>
Private Capital Transactions (4 + 16 + 17) <u>1/</u>	-13.8	-14.6	-0.6	-0.6
Official Capital Transactions (22 + 26)	4.6	10.6	4.6	6.5
Changes in foreign reserves (22)	5.2	13.0	5.0	6.5
(OPEC) (23)	(5.9)	(6.7)	(2.7)	(0.8)
(Other countries) (24)	(-0.7)	(6.3)	(2.3)	(5.7)
Changes in U.S. reserve assets (26)	-0.6	-2.5	-0.4	*

*/ Less than \$50 million

1/ Line numbers in U.S. International Transactions Table, Table IV - T-1.

U.S. Merchandise Trade. The rise in exports in the second quarter was about evenly split between agricultural and nonagricultural commodities. Agricultural exports rose by 9 per cent in the second quarter to total \$26.7 billion at an annual rate. Most of the increase was from a higher value of soybean exports as export prices rose 20 per cent between March and June and quantities also increased. There was also an increase in the quantity of wheat exported that was not quite offset by a decline in wheat export prices.

Nearly all of the nonagricultural export increase was in industrial supplies (particularly coal which is shipped largely to Japan, and nonferrous metals) and in civilian aircraft exports. The value of machinery exports was slightly larger in the second quarter than in the first quarter, primarily because of price rises. The volume of machinery exports expanded by 1-1/2 per cent.

Second quarter imports rose strongly with the pickup in the U.S. economy; the increase was about evenly split between oil and non-oil. The rise in non-oil imports was spread over a broad range of commodities with some of the larger increases coming in industrial supplies. Nearly all of the 14 per cent rise in industrial supplies was in volume; steel accounted for about one-third of that rise (mostly from the EEC); another large part of the increase was nonferrous metals. Foreign car imports were up slightly in the second quarter but imports, throughout the quarter, were less than the record sales.

The volume of oil imports increased by 5 per cent to 9.8 million barrels per day in the second quarter while the price rose 3 per cent to an average \$13.37 per barrel. A large part of the increase in petroleum imports in the second quarter was probably due to stock building in anticipation of the July 1 OPEC price increase. At the end of June 1977

	<u>Petroleum & Products</u> (millions of barrels)					
	1973	1974	1975	1976	1977-Q1	1977-Q2
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977-Q1</u>	<u>1977-Q2</u>
Imports	2493.0	2412.7	2368.9	2851.1	838.8	889.1
U.S. Production	4172.4	3997.9	3834.3	3780.0	905.1 ^{1/}	891.0 ^{1/}
Stocks	850.6	893.9	941.6	948.0 ^{2/}	915.5 ^{2/}	1005.8 ^{2/}

^{1/} Forecast

^{2/} After 1975 data include crude oil in pipelines between ports and refineries, raising the stocks level by about 13-18 million barrels.

stocks of crude petroleum and products were about 100 million barrels greater than was the average for June of the preceding two years. The estimated \$84 million barrel increase in stocks in 1977-Q2 added about \$4.5 billion at an annual rate to second quarter imports. It is unlikely that this will be permanent increase in the level of private petroleum stocks.

Foreign participation in selected U.S. credit markets. In the second quarter, U.S. banking offices reported a net inflow of funds from foreigners of \$2.3 billion, compared to a net outflow of \$2.2 billion in the first quarter (see table below). The shift to an inflow reflected the restructuring of some foreign portfolios away from the Treasury securities and towards bank liabilities, rather than the repayment of bank loans by foreigners. The shift into U.S. bank deposits, notably by the World Bank, probably reflected the rising yield differential in favor of large negotiable CD's over Treasury bills in the second quarter.

Foreign purchases of U.S. Treasury Securities by non-OPEC countries totaled about \$4 billion in the second quarter. The United Kingdom and Italy accounted for about one-half of this total. For many of these countries investment in Treasury securities is closely related to exchange market intervention, in this instance to purchases of dollars against their own currencies. OPEC sold a small net amount of Treasury securities, as compared to purchases of \$2.4 billion in the first quarter,

Foreign Activity in Selected
U.S. Credit Markets
(billions of dollars)

	1975	1976	1977	
			Q1	Q2
Flow of funds from foreigners to U.S. banking offices	<u>-15.2</u>	<u>-9.1</u>	<u>-2.2</u>	<u>2.3</u>
Private	(-13.0)	(-10.0)	(-1.8)	(1.6)
Official	(-2.2)	(0.9)	(-0.4)	(0.7)
Foreign purchases of U.S. corporate securities	5.4	4.0	0.9	1.4
Foreign purchases of U.S. Treasury securities	7.9	12.7	6.1	2.7
Private <u>1/</u>	(2.6)	(2.8)	(1.0)	(-1.3)
Official	(5.3)	(9.9)	(5.1)	(4.0)
New foreign issues of bonds & notes	<u>7.2</u>	<u>10.0</u>	<u>1.3</u>	<u>1.9</u>

*/ Less than \$50 million

1/ Includes World Bank and other development finance institutions

as these countries place most of their increase in reserves in other U.S. and offshore markets. The World Bank also reduced its holdings of Treasury securities by \$1-1/2 billion and placed about \$0.5 billion in the Euro-dollar market.

Private and official foreign purchases of U.S. corporate securities (stocks and bonds) totalled \$1.3 billion in the second quarter, compared to \$1.1 billion in the first quarter, and a quarterly average in 1976 of about \$750 million. Of the \$1.3 billion of foreign purchases of U.S. corporate securities in the second quarter, \$400 million represents the purchase in private placements by one OPEC country of medium-term notes of five major U.S. corporations. Stock purchases by foreigners of \$700 million were slightly above the quarterly average of \$675 million in 1976.

New issues of foreign securities in the United States increased to \$1.9 billion in the second quarter from a first quarter rate of \$1.3 billion. Industrial countries accounted for about \$1.0 billion, development institutions \$0.7 billion, and OPEC and developing countries \$100 million each.

Prices and Price Policies in Foreign Industrial Countries.

Following very sharp rises in wholesale and consumer prices in 1974, price performance improved notably in most foreign industrial countries in 1975 and 1976 (see attached Table). Inflation rates remain high, however, and the degree to which further reductions seem likely varies greatly among countries. Continued price inflation is generally occurring in an environment of high unemployment of labor and capital resources and general weakness of economic activity. Except in Germany and Japan, consumer price increases in the major countries remained in the 10 to 20 per cent range (n.s.a., annual rates) over the latest three months available. Recent wholesale price developments also have been sharply different across countries. Among the smaller industrial countries, Switzerland has experienced almost stable prices during the past year; inflation rates remain high in most of the others.

The underlying causes of such price performance differ among countries. One common factor, however, is the experience with food and other commodity prices. Impetus to food price inflation was provided by the 1976 drought, which impaired European agricultural output. Additional upward pressure stemmed from the harshness of the past winter and from spring freezes - e.g., in France - which damaged fruit and vegetable crops. Substantial increases in prices of tropical beverages have also played a well-publicized role.

After peaking in 1974, nonfood commodity prices fell sharply in 1975, but most turned up again during 1976 and early 1977. In March of this year new peaks were reached. Since then, spot prices of

Price Developments in Major Foreign Countries, 1974-1977
(percentage change from previous period, n.s.a., annual rates)

	<u>1974</u> <u>Year</u>	<u>1975</u> <u>Year</u>	<u>Year</u>	<u>1976</u>				<u>1977</u>			<u>Latest</u> <u>Month</u>
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Latest</u> <u>3 Mos.</u>	
I. Wholesale Prices											
Japan	31.4	3.0	5.5	8.2	6.6	7.8	3.2	1.6	0.4	-0.9	July
Germany	14.9	6.9	5.4	13.0	8.2	1.2	-1.6	1.6	1.6	1.6	June
France	29.1	-5.7	7.4	10.0	19.7	18.8	3.2	5.3	4.7	4.7	June
U.K.	23.4	24.1	16.4	16.5	15.1	17.4	20.6	26.2	19.3	19.0	July
Italy	40.8	8.5	22.9	29.1	55.1	17.4	25.8	18.3	10.4	10.4	June
Canada	22.4	6.5	4.3	2.0	6.1	1.2	2.4	21.1		17.9	May
II. Consumer Prices											
iv - 15 Japan	22.6	12.1	9.7	11.2	11.7	2.4	12.6	10.8	10.0	6.3	July
Germany	7.0	5.9	4.6	7.0	6.1	0.4	2.0	7.8	5.7	4.5	July
France	13.6	11.7	9.6	10.0	9.5	9.5	10.8	6.6	12.9	12.9	June
U.K.	16.0	24.2	16.6	15.2	15.6	9.5	19.7	21.6	19.3	19.3	June
Italy	19.2	16.9	16.7	17.9	27.7	11.7	28.2	20.2	16.1	16.1	June
Canada	10.9	10.8	7.5	5.3	6.1	6.1	6.1	8.7	10.0	10.0	June

Notes: Wholesale Prices: General WPI except for France (industrial products) and the United Kingdom (manufactured goods, domestic sales). Consumer Prices: General CPI except for France and the United Kingdom (retail price index) and Japan (CPI, Tokyo area).

Sources: National Sources.

commodity have receded, partly due to forecasts of new record harvests of major feedgrains, and partly because of weak markets for major metals such as steel and copper.

Individual countries have in the past few years employed a wide array of strategies for bringing inflation under control. A few, such as Japan and Germany, have relied mainly on general macroeconomic policies, but most others have employed direct wage and price controls (including freezes), "social-contracts" and consensus, tax-package/wage-bargain tradeoffs and modifications in indexing arrangements to break the inflationary spiral. How successful these strategies have been is open to doubt. Other factors rendering the wage/price outlook somewhat problematic are political instabilities, labor militancy and problems in winding-down existing wage/price controls.

Price and wage increases in Japan have moderated greatly since 1974. During the latest three quarters, wholesale prices have been fairly stable (in July the WPI was only 1.1 per cent higher than a year earlier), although consumer prices rose at about a 10 per cent annual rate in the first half of 1977. Export prices (in yen terms) have fallen during the past twelve months. Nominal wage gains of manufacturing workers in the spring wage-offensive this year came to around 9 per cent, about the same as in 1976.

In general the Japanese rely more on jawboning during the spring wage-rounds than on formal wage/price controls to influence events, although prices of certain goods and services, including utilities, transportation and rice, are subject to explicit controls.

The recent, sizeable appreciation of the Japanese yen may have a dampening influence on further price increases. Despite the first half performance, the government hopes that the increase in the CPI during 1977 can be held to 8 per cent.

German price inflation during the past several years has been the lowest among the major foreign countries. After peaking at 7 per cent in 1974, consumer price increases dropped to 4.6 per cent in 1976 and are expected to fall further, to around 4 per cent, this year, although a rise in value-added taxation is scheduled for 1978. Since the middle of last year, wholesale prices have risen only slightly; export prices (in DM) have been nearly flat. Further increases are expected to remain moderate, partly because of the appreciation of the DM.

Germany has no formal system of wage-price controls. Periodic consultations among the government, employers and labor -- the so-called "Concerted Action" -- have usually been successful at finding some consensus on appropriate adjustments. The most recent round, however, was boycotted by labor representatives, partly because two years of wage-restraint and their assent to increased profit margins for enterprises have not set in train any noticeable reduction in unemployment.

In Germany one goal of announcing monetary targets has been to influence wage and price expectations. The Bundesbank has explicitly cautioned that its projected monetary growth sets out approximate boundaries on the growth of nominal incomes, and that the bank could

not be expected to validate excessive claims by supplying additional money.

During 1976 French consumer prices rose by almost 10 per cent, which represented some improvement from the previous two years. Wholesale prices, which had decreased in 1975, resumed their upward rise in 1976.

Since the oil crisis the French government has experimented with various wage and price controls. These have included efforts to mandate public sector settlements, use of passthrough rules for price setting, freezing of profit margins for producers and importers and controls on the distribution and service sectors. A program to tax "excess value-added" was passed in 1974, but so far has not been activated. The Barre program of September 1976 featured a 3-month price freeze on most items in the consumer price index, except for fresh foods and some agricultural products whose prices are set by the European Community. Utility charges were frozen until April of this year; limits were imposed on rent increases through 1977, and an absolute ceiling was imposed on the franc value of oil imports. Another element contributing to the improvement in first quarter price statistics was a reduction in value-added taxes (from 20 per cent to 17.6 per cent) which took effect at the beginning of the year. In the second quarter, however, consumer prices accelerated again. In view of the highly uncertain political situation, the ability of the French government to maintain stringent measures until the elections next March may be questionable.

Rates of price increase in Italy have been high for several years. Consumer prices in 1976 rose by 16.7 per cent, only fractionally less than in 1975, and wholesale price increases substantially exceeded 1975 results. Second quarter 1977 figures show some deceleration in both indexes, although it would be difficult to conclude that lasting improvement is yet in sight. The Italian situation has been complicated by the sharp fall of the lira during 1976 and the general system of wage-indexing, the scala mobile, under which nominal wages rapidly adjust almost fully to price increases.

In connection with IMF negotiations, Italian authorities have tried to modify the scala mobile. Some progress has been recorded, but this has fallen short of what would seem desirable. To lower labor costs, the government agreed to assume part of the social insurance charges formerly paid by business, offsetting the additional budget costs by increasing the value-added and certain other indirect taxes. It failed, however, in an effort to sterilize the impact of these tax increases on the scala mobile. Still, government agreements with employers and unions on productivity and labor-use may have a salutary effect on the wage/price situation. While such initiatives are not a comprehensive price or incomes policy, Italy does exercise direct control over a limited number of goods' prices. In addition, in their Letter of Intent to the IMF, the Italians accepted certain inflation objectives and acknowledge that further changes in the scala mobile might be required.

In the United Kingdom price inflation during 1976 dropped to about 16.5 per cent, compared with over 24 per cent during 1975. Both wholesale and consumer price increases accelerated in the fourth quarter and continued at higher levels through the middle of 1977. It is generally felt that the sharp depreciation of the pound sterling last year accounts for part of this renewed price surge. Likewise, price prospects may have improved recently in consequence of the pound's external strength.

The United Kingdom has a long history of wage/price controls in almost every conceivable form. Under Phase I of the "voluntary" program, which began in 1975, there was a £6 limitation on increases in weekly wages for most workers. Phase II, which took effect in August 1976, replaced this lump-sum approach with a 5 per cent limitation on most wage gains, in exchange for government commitments to cut personal taxes. The Trades Union Congress has recently rejected any specific Phase III, which would have begun this month. Further wage restraint is therefore now in doubt, although there are hopes that the unions will honor the 12-month contracts made during Phase II before demanding further wage increases.

As with wage controls, the United Kingdom has experimented with several generations of price control measures. Under new legislation replacing the 1973 "Price Code," the Price Commission has been given power to freeze certain prices for up to three months and to recommend freezes for up to 12 months, if necessary.

The Canadian price situation improved dramatically following the introduction of the Anti-Inflation Program (AIP) in late 1975. Wholesale prices in 1976 rose by slightly over 4 per cent, while consumer prices rose by 7.5 per cent. A good part of the improvement, however, was due to the slowdown in food-price increases, which are not covered by the AIP. More recently, inflation has accelerated again, with an upsurge in food prices again a major influence. The recent depreciation of the Canadian dollar -- by about 9 per cent against the U.S. dollar -- may be expected to intensify this pressure, in view of Canada's close trade relations with the United States.

The Canadian AIP, which is scheduled to expire at the end of 1978, provides fairly comprehensive controls on prices, wages and profits in nonagricultural sectors. Initial target rates of inflation under this program were 3 per cent for 1976, 5 per cent for 1977 and 4 per cent for 1978; similar wage increases were targeted. An Anti-Inflation Board has powers to roll back "unjustified" increases and/or levy fines against offenders. Although the 1976 price objectives of the AIP were met (and wage increases dropped by half, to about 9 per cent), similarly favorable results for 1977 are in doubt. An increase in consumer prices of at least 7-1/2 per cent is now expected for the year as a whole.

Appendix A*

REVISION OF NATIONAL INCOME AND PRODUCT ACCOUNTS^{1/}

Revised National Income and Product Accounts indicate that the recent recession was not quite as severe as earlier indicated. The recovery in economic activity since the trough was of the same magnitude as previously estimated, although the sluggish growth in the second half of 1976 was more pronounced than suggested by the earlier estimates. Additionally, the revised estimates indicate that over the last three years there was less personal saving and more business saving than estimated earlier.

Gross national product (GNP) in real terms is now estimated to have declined 1.4 per cent in 1974 and 1.3 per cent in 1975, both somewhat less than indicated earlier, while growth in 1976--6.0 per cent--was virtually unchanged from prior reports. (See Table I.) The major revisions were concentrated in the contraction phase of the current cycle. The revised data indicate a drop of 5.9 per cent from QIV-1973 to QI-1975--three-quarters of a percentage point less than the earlier estimate; however, the recession is still indicated to have been the deepest and longest of the postwar period. The rise from QI-1975 to QI-1977 was about unchanged at 12.1 per cent, but real growth in the final quarter of 1976--now estimated at 1.2 per cent annual rate--was almost $1\frac{1}{2}$ percentage points below the previous indication. In current dollar terms, the level of GNP was revised downward fractionally in 1974 and upward by \$12.5 billion and \$14.9 billion in 1975 and 1976, respectively. Revisions in aggregate GNP prices, on balance, were quite small and reflected the introduction of more appropriate price indexes for components of business fixed investment and for residential investment.

Some of the more significant sectoral changes resulting from this revision are:

1. Most of the 1975 and 1976 upward revisions to nominal GNP reflected higher estimates for personal consumption expenditures (PCE) with two-thirds of the 1976 revision occurring in the services category--especially "medical" services. The upward revision in PCE reduced the saving rate markedly in 1976 from 6.5 per cent to 5.6 per cent and in 1975 from 7.8 per cent to 7.4 per cent.

^{1/}This revision covers the period 1974-I through 1977-I. New source data which were not available at the time of the earlier estimates are incorporated and seasonal factors are updated in the annual July revision.

*Prepared by James D. August, Economist, National Income Section, Division of Research and Statistics.

2. Inventory liquidation in 1975 is now indicated to have been much less than earlier estimated while the accumulation in 1976 is now indicated as a bit greater.
3. Government, at all levels, purchased \$4.3 billion less goods and services in 1976 than had been thought earlier. Of this total, \$3.3 billion was accounted for by the Federal government.
4. The largest revisions in prices were in residential fixed investment where a new price index was incorporated and in nonresidential fixed investment where new lag structures were applied to reflect more appropriate delivery prices.
5. On the income side, corporate profits, both before and after inventory valuation and capital consumption adjustments, were revised sharply upward in 1975 and 1976. Proprietors' income was revised downward in both years--with the revision applying to both the farm and nonfarm components. Government receipts were revised sharply upward in 1976 while overall expenditures were scaled down. This resulted in a combined Federal-State and local deficit of \$35.6 billion rather \$44.7 billion as estimated earlier.

Consumer Activity

Personal consumption expenditures (PCE) were revised upward by increasingly large amounts starting in 1974-III, and by 1976-IV the revision was \$17.0 billion. Over this period almost 80 per cent of the total PCE revision was in the services component with the bulk in medical services. Revisions in durable spending were modest except in the final quarters of each of the three years, when automobile expenditures are indicated to have increased sizeably more than earlier estimated. Non-durable spending was revised upward in all of 1976 and the first quarter of 1977--mainly in the food and clothing categories. For the period 1974-III to 1976-IV only two-fifths of the upward revision in total PCE represented prices--mainly food in 1974; autos, food and medical services in 1975; and medical services in 1976.

Consumer spending (in real terms) is now estimated to have declined only 2.3 per cent between its 1973-III peak and 1974-IV trough, rather than by 2.9 per cent as estimated earlier. From that trough to 1977-I, the rise in real PCE remains virtually unchanged at about 12.9 per cent.

Previous estimates of personal income were revised up by progressively greater amounts in each of the three years covered in this revision. (Table II.) Within personal income, relatively large upward revisions were made in other labor income (mainly employer contributions to pension and welfare funds) and transfer payments, while there were downward revisions in wages and salaries and in proprietors' (both farm

and nonfarm) incomes (including inventory valuation and capital consumption adjustments). In addition, estimates of personal tax and nontax payments were raised in 1976. On balance, disposable income was revised upward but by considerably less than consumer outlays in both 1975 and 1976; this resulted in a significant reduction in the saving rate. By the first quarter of 1977, the saving rate was estimated at 4.1 per cent-- $\frac{3}{4}$ of a percentage point below the prior indication and the lowest since the Korean War-affected level of 3.7 per cent in 1951-I.

Business Activity

Business spending on fixed capital goods was revised upward through the entire revision period reaching a maximum of \$3.1 billion in 1977-I (current dollars). The bulk of the upward revisions was in expenditures for producers' durable equipment, although by 1977-I, the revision was about evenly split between this and the nonresidential structures component. In real terms, BFI is now estimated to have fallen by 17.2 per cent between its specific peak (1974-I) and trough (1975-III)--a slightly smaller drop than earlier indicated. From 1975-III to 1977-I, real BFI rose 12.0 per cent instead of 11.1 as estimated earlier. (See Table III.)

The revisions in nonfarm business inventory investment (in both current and constant dollars) indicate somewhat less accumulation in 1974, less liquidation in 1975 and more accumulation in 1976 than previously estimated. Nevertheless, the \$26 billion (annual rate) liquidation in the first two quarters of 1975 remains the largest of the postwar period. Movements in the constant dollar inventories/final sales ratio were little affected by the revision; the extremely high peak in late 1974 was lowered just a bit by the revisions from .261 to .259. In 1977-I this ratio was .236.

Corporate profits were revised upward substantially in both 1975 and 1976. Economic profits (those with IVA and capital consumption adjustments) are now indicated as \$8 billion and \$10 billion higher in 1975 and 1976, respectively, and little changed for 1974. Most of the profits revisions were in before tax profits as tax liability and the IVA and the capital consumption adjustment were all little changed by the revision. And, with little change in the dividend figures, almost all of the before tax profits revisions were carried through into undistributed profits. Economic cash flow--as measured by the sum of undistributed profits plus capital consumption allowances with capital consumption adjustment^{2/}--shows that internally generated funds available for investment grew by 50 per cent between 1973 and 1976 on the revised basis rather than by the earlier indicated 45 per cent. Profit shares, of national

^{2/}The capital consumption adjustment is used to reconcile depreciation reported in tax returns with that implied by a more appropriate measure of economic replacement.

income, both before and after taxes, were revised upward and in 1976 were nearly back to their pre-recession levels although still lower than the levels reported during the 1960's.

Residential Construction Activity

Revisions in the level of spending for residential construction were fairly small in both current and constant dollar terms. Real spending is estimated to have been a bit stronger since mid-1975 than previously. The major revision in this sector was the introduction of the Census Bureau's new price index for single family homes (based on specifications for a 1974 home rather than a 1976 home). The main effect of this new index was to reduce slightly the rate of increase in new home prices in 1975 and 1976.

Net Exports

The July revision had little effect on net exports in either current or constant dollar terms. The most sizable revisions were in 1974 when the level of exports was reduced by \$6½ billion and imports by \$5 billion.

Government Sector

The revisions indicate that on an NIPA basis net government spending was substantially less stimulative than the earlier figures had indicated--especially in 1976. The combined Federal and State and local deficit was reduced by \$9 billion in 1976--from \$44.7 billion to \$35.6 billion. The Federal deficit was reduced by about \$4½ billion while the surplus of State and local governments was raised by \$4½ billion. (See Table IV.)

Federal defense purchases of goods and services were reduced in each of the thirteen quarters affected by the revisions; the largest reductions were in the final quarters of 1976 and totaled \$5 billion. Nondefense purchases were revised down in 11 of the thirteen quarters, with the reductions averaging just under \$2 billion for the final quarter of 1975 and all of 1976. Total receipts were revised up by \$.4 billion in 1975 and \$2.0 billion in 1976. Receipts from business taxes and accruals were a little larger in 1975 than earlier estimated but considerably less during the final quarter of 1976; personal tax payments were increased substantially in the last three quarters of 1976.

State and local government purchases of goods and services were scaled down over most of the revision period with the largest reductions coming in 1976-HII and 1977-I when employee compensation and spending on structures were both lowered by a substantial amounts. Transfer payments by States and localities were generally higher than had been indicated earlier. Receipts from personal and business taxes were

considerably increased in 1976 as were grants-in-aid from the Federal government. These revisions in spending and receipts resulted in the "operating" surplus^{3/} for the sector as a whole being revised upward in 1977-I by about \$5½ billion to \$11.9 billion--a level exceeded only in 1972-IV when there was a substantial infusion of Federal revenue sharing funds.

Prices

The overall impact of the revision on prices, as measured by the GNP implicit price deflator, was relatively small. The rate of increase in these prices was revised downward in 1974 by .3 percentage point but upward by .3 and .2 percentage point in 1975 and 1976, respectively. Since fixed-weighted measures of aggregate price increases--both for GNP and gross domestic business product--were revised up in all three years, only the revision in 1974 could be attributed to a changing mix of GNP. In addition to introducing a more appropriate price index for residential construction, a new lag structure was developed for deflating producers' durable equipment by delivery prices rather than the reported orders price indexes.

Revisions in the quarterly pattern of price increases were generally small and do not significantly alter the pattern of developments indicated earlier. Inflation is still shown as being very rapid in 1974, moderating some in 1975 and early 1976, and then accelerating somewhat thereafter. (See Table V.)

^{3/}The "operating" surplus/deficit is that which excludes the effect of social insurance (pension) funds and, therefore, more accurately measures the impact of current operations.

Table I

1977 July Revisions in GNP
 (Per cent Changes from Preceding Period; Quarterly Figures
 at Compound Annual Rates)

	GNP: Current Dollars			GNP: 1972 Dollars		
	Revised	Previously Published	Difference	Revised	Previously Published	Difference
1974:I	4.2	5.3	-1.1	-3.9	-3.9	.0
II	9.4	8.0	1.4	-1.8	-3.1	1.3
III	8.9	9.5	-.6	-2.4	-2.6	.2
IV	6.4	5.0	1.4	-5.5	-6.8	1.3
1975:I	.2	-.8	1.0	-9.6	-9.9	.3
II	12.5	10.4	2.1	6.4	11.4	.8
III	19.5	19.1	.4	11.4	11.4	.0
IV	9.5	10.6	-1.1	3.0	3.3	-.3
1976:I	13.2	12.6	.6	8.8	9.2	-.4
II	10.2	9.9	.3	5.1	4.5	.6
III	8.6	8.5	.1	3.9	3.9	.0
IV	6.7	8.5	-1.8	1.2	2.6	-1.4
1977:I	13.2	13.0	.2	7.5	6.9	.6
1974	8.1	8.2	-.1	-1.4	-1.7	.3
1975	8.2	7.3	.9	-1.3	-1.8	.5
1976	11.6	11.6	.0	6.0	6.1	-.1

Table II

Revisions in Personal Income and its Disposition^{1/}
 (Billions of dollars; revisions for quarters are based on SAAR levels)

	Personal Income	Wage & Salary Disbursements	Other Labor Income	Proprietors' Income	Transfer Payments	Tax and Nontax Payments	Disposable Personal Income	Personal Outlays	Saving Rate ^{2/}
1974:I	.6	-.4	-.1	-.2	.7	-.6	1.1	.7	.0
II	3.7	.3	-.2	1.1	.6	.0	3.6	.7	.3
III	1.8	-1.1	.1	-1.3	.6	.1	1.7	2.4	-.1
IV	.6	-.6	.6	-2.2	.3	.2	.4	5.3	-.5
1975:I	2.0	-.7	1.2	-2.2	.2	.3	1.6	3.4	-.2
II	4.4	-.4	1.9	-2.5	1.3	.3	4.0	5.5	-.2
III	4.2	-1.2	2.8	-5.1	2.4	-.1	4.2	8.0	-.4
IV	4.3	-1.5	3.8	-6.8	2.7	.1	4.2	12.4	-.8
1976:I	6.8	.0	4.6	-6.3	1.7	1.0	5.7	12.9	-.6
II	4.7	1.3	5.5	-9.9	1.1	3.1	1.6	14.2	-1.1
III	7.9	2.4	6.2	-9.9	1.9	4.8	3.1	14.2	-1.0
IV	10.5	2.2	6.7	-8.4	1.4	4.2	6.1	17.7	-1.0
1977:I	12.8	4.2	7.4	-8.5	.7	6.2	6.6	14.9	-.7
1974	1.6	-.4	.1	-.7	.6	-.1	1.7	2.3	.0
1975	3.7	-1.0	2.4	-4.2	1.6	.2	3.5	7.3	-.4
1976	7.4	1.4	5.8	-3.7	1.5	3.3	4.1	14.7	-.9

^{1/} Revisions are defined as level of revised data minus level of previous estimate.

^{2/} Percentage points.

Table III

Revisions in Gross Private Domestic Investment^{1/}
 (Billions of dollars; revisions for quarters are based on SAAP levels)

	Nonresidential Fixed			Residential	Charge in Nonfarm ^{2/}	
	Total	Structures	Producers' Durable Equip.		Business Inventories Revised	Inventories Unrevised
1974:I	.2	.1	.1	-.4	17.0	14.5
II	1.5	.2	1.2	-.2	13.0	13.9
III	2.6	.6	2.0	-.1	2.4	7.4
IV	1.3	.4	.8	.7	10.7	12.9
1975:I	1.8	.2	1.6	.7	-25.9	-25.6
II	1.9	.7	1.1	.0	-26.5	-31.2
III	2.1	1.0	1.1	-.3	1.4	-4.2
IV	2.0	1.3	.8	.6	-9.2	-9.5
1976:I	2.0	1.5	.6	.1	15.9	12.7
II	1.9	.9	1.0	1.0	20.4	17.3
III	1.9	.0	2.0	-1.1	22.0	15.6
IV	2.0	.0	2.0	1.2	1.4	2.2
1977:I	3.1	1.3	1.8	.8	14.1	13.0
1974	1.4	.3	1.1	.0	10.8	12.2
1975	2.0	.9	1.2	.3	-15.1	-17.6
1976	1.9	.5	1.4	.3	14.9	11.9

^{1/}Revisions are defined as level of revised data minus level of previous estimate.

^{2/}Actual data.

Table IV

Government Surplus/Deficit (GIPA basis)
 (Billions of dollars; revisions for quarters are based on SAAR levels)

	Combined		Federal		State and local	
	Revised	Previous estimate	Revised	Previous estimate	Revised	Previous estimate
1974:I	4.0	4.7	-5.5	-4.1	9.5	8.7
II	1.2	.2	-7.6	-7.6	8.8	7.8
III	-.3	-1.0	-8.0	-9.0	7.7	9.0
IV	-17.4	-20.8	-21.7	-25.3	4.2	4.5
1975:I	-44.9	-45.0	-48.5	-49.3	3.7	4.7
II	-94.7	-92.9	-99.2	-99.9	4.5	6.9
III	-59.0	-58.1	-65.5	-66.0	6.6	7.9
IV	-58.7	-61.5	-67.6	-69.4	8.9	7.9
1976:I	-47.1	-51.6	-60.3	-63.8	13.3	12.2
II	-33.3	-44.9	-46.2	-54.1	12.9	9.2
III	-32.4	-44.7	-53.5	-57.4	21.1	12.7
IV	-29.4	-37.4	-55.9	-59.3	26.5	21.9
1977:I	-11.5	-21.0	-33.8	-41.2	27.3	20.2

1974	-3.2	-4.2	-10.7	-11.5	7.6	7.3
1975	-64.3	-64.4	-70.2	-71.2	5.9	6.9
1976	-35.6	-44.7	-54.0	-58.6	18.4	14.0

Table V

1977 July Revision of GIP Prices
 (Per cent change at annual rate; quarterly changes
 are based on seasonally adjusted annual rate data)

	<u>GIP Implicit Deflator</u>		<u>Gross Domestic Business Product Fixed-Weighted Price Index</u>	
	Revised	Previous estimate	Revised	Previous estimate
1974:I	8.4	9.5	11.2	10.8
II	11.4	11.5	11.3	11.1
III	11.6	12.4	13.1	13.2
IV	12.6	12.7	12.4	12.5
1975:I	10.8	10.1	9.0	9.1
II	5.7	4.5	6.6	5.3
III	7.3	7.0	7.6	7.4
IV	6.3	7.1	5.9	6.2
1976:I	4.1	3.2	4.3	3.7
II	4.9	5.2	5.3	5.2
III	4.6	4.4	4.5	4.3
IV	5.4	5.8	5.5	4.9
1977:I	5.3	5.7	6.8	6.5

1974	9.7	10.0	10.4	10.2
1975	9.6	9.3	9.5	9.3
1976	5.3	5.1	5.4	5.2