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CONFIDENTIAL (FR)

September 13, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
					(At annual rate)	
Civilian labor force	Aug.	9-1-78	100.5	-.8	1.1	3.0
Unemployment rate (%)[1]	Aug.	9-1-78	5.9	6.2	6.1	7.0
Insured unemployment rate (%)[1]	Aug.	9-1-78	3.7	3.4	3.1	4.0
Nonfarm employment, payroll (mil.)	Aug.	9-1-78	86.1	1.6	3.0	4.4
Manufacturing	Aug.	9-1-78	20.3	-2.7	.2	3.5
Nonmanufacturing	Aug.	9-1-78	65.8	2.9	3.9	4.7
Private nonfarm:						
Average weekly hours (hr.)[1]	Aug.	9-1-78	35.9	36.0	36.0	36.0
Hourly earnings ($)[1]	Aug.	9-1-78	5.74	5.73	5.64	5.28
Manufacturing:						
Average weekly hours (hr.)[1]	Aug.	9-1-78	40.3	40.4	40.3	40.3
Unit labor cost (1967=100)	July	8-30-78	166.8	6.5	3.1	7.3
Industrial production (1967=100)	July	8-15-78	145.3	5.8	5.9	4.8
Consumer goods	July	8-15-78	147.3	3.3	-.5	1.3
Business equipment	July	8-15-78	162.8	11.2	8.8	7.7
Defense & space equipment	July	8-15-78	85.5	20.0	12.5	6.3
Materials	July	8-15-78	146.9	5.7	8.9	5.8
Consumer prices (1967=100)	July	8-29-78	196.4	6.1	9.4	7.7
Food	July	8-29-78	213.9	-.6	11.1	10.5
Commodities except food	July	8-29-78	174.9	6.9	7.2	5.7
Services	July	8-29-78	212.2	9.7	10.8	8.4
Producer prices (1967=100)	Aug.	9-8-78	210.4	3.7	5.2	8.1
Industrial commodities	Aug.	9-8-78	211.1	8.0	7.9	7.3
Farm products & foods & feeds	Aug.	9-8-78	205.3	-12.7	-3.9	11.5
Personal income ($ bil.)[2]	July	8-17-78	1719.2	17.1	11.9	12.1
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	July	8-30-78	64.4	-6.4	-8.0	14.3
Capital goods industries	July	8-30-78	19.0	-11.8	-11.2	19.0
Nondefense	July	8-30-78	16.7	-8.0	-4.0	19.9
Defense	July	8-30-78	2.3	-32.2	-42.1	13.0
Inventories to sales ratio:[1]						
Manufacturing and trade, total	June	9-11-78	1.41	1.40	1.42	1.46
Manufacturing	July	8-30-78	1.55	1.52	1.49	1.61
Trade	June	9-11-78	1.31	1.30	1.33	1.32
Ratio: Mfrs.' durable goods inventories to unfilled orders[1]	July	8-30-78	.599	.593	.600	.653
Retail sales, total ($ bil.)	Aug.	9-11-78	64.6	.8	.6	9.4
GAF[3]	Aug.	9-11-78	14.1	-.1	-.6	8.2
Auto sales, total (mil. units.)[2]	Aug.	9-7-78	11.9	8.8	-3.1	2.9
Domestic models	Aug.	9-7-78	9.8	8.6	-2.5	3.4
Foreign models	Aug.	9-7-78	2.1	9.8	-5.7	.7
Plant & Equipment expen. ($ bil.)[2]						
All Industries	1978[4]	9-7-78	152.50	—	—	12.3
	QII '78	9-7-78	150.76	4.5	—	12.3
	QIII '78[4]	9-7-78	155.13	2.9	—	10.5
	QIV '78[4]	9-7-78	158.98	2.5	—	15.1
Capital Appropriations, Mfg.	QII '78	8-31-78	13,987	-17.4	—	-2.1
Housing starts, private (thous.)[2]	July	8-16-78	2,085	-1.8	-3.7	.6
Leading indicators (1967=100)	July	8-30-78	136.1	-.7	.0	5.2

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce September Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Slower growth of activity continues to be apparent in most incoming data. Gains in employment and production slowed somewhat in August, and retail sales remained very sluggish. In the fixed investment sectors, July housing starts held at a high level, while capital equipment shipments and nonresidential construction were about unchanged in July. Moreover, advance indicators suggest a slowing of growth in capital spending following the surge in the second quarter. Increases in recent aggregate price indexes were held down by sizable declines in prices of some farm products and foods.

Employment and Production

Although total employment gains were moderate in August, the unemployment rate moved back down to 5.9 per cent--slightly below the average for the first seven months of the year. The decline in joblessness was concentrated among adult women and youth whose unemployment rates had risen in July. At 3.4 per cent, the unemployment rate for men aged 25 years and older was little changed in August.

Nonfarm payroll employment grew by 115,000 in August, about half the average monthly gain of the preceding three months. In the private service-producing sector hiring continued strong, but employment in the construction industry edged down after registering impressive gains for several months. There again were reductions in nondurable manufacturing and in the durable goods sector, employment was little

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

	Dec. 76 to Dec. 77	Dec. 77 to June 78	June 78 to July 78	July 78 to Aug. 78
Nonfarm payroll employment 1/	255	399	183	113
Manufacturing	63	70	29	-46
Durable	49	50	61	5
Nondurable	14	20	-32	-51
Construction	29	68	24	-23
Trade	57	76	62	79
Services and finance	78	82	139	79
State and local government	28	48	-37	-19
Private nonfarm production workers	173	272	190	75
Manufacturing production workers	49	52	-5	-51
Total employment 2/	347	368	-394	156
Nonagricultural	340	343	-308	183

1/ Survey of establishments.
2/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent; based on seasonally adjusted data)

	1973	1977		1978			
	Annual Average	QIII	QIV	QI	QII	July	Aug.
Total, 16 years and older	4.9	6.9	6.6	6.2	5.9	6.2	5.9
Teenagers	14.5	17.6	16.7	16.9	15.9	16.3	15.6
20-24 years old	7.8	10.8	10.3	10.3	9.4	9.9	9.0
Men, 25 years and older	2.5	4.1	3.9	3.5	3.3	3.3	3.4
Women, 25 years and older	4.0	6.1	5.8	4.9	5.1	5.6	5.3
White	4.3	6.1	5.8	5.4	5.1	5.3	5.2
Black and other	8.9	13.6	13.3	12.3	12.0	12.5	11.7
Fulltime workers	4.3	6.5	6.2	5.7	5.4	5.7	5.5
White collar	2.9	4.2	4.1	3.5	3.5	3.8	3.5
Blue collar	5.3	8.1	7.6	7.1	6.5	6.9	7.0
Craft and kindred	3.7	5.4	5.3	5.2	4.3	4.0	4.4
Operatives, ex. transport	6.1	9.9	9.2	8.0	8.0	8.5	9.0

changed in August after rising in July. The average workweek for manufacturing production workers has been on a relatively high plateau during the past four months.

Industrial production is tentatively estimated to have risen about 1/2 per cent in August. Owing to data revisions, somewhat larger increases now seem likely for the two preceding months. Output of business equipment, which has been a major source of strength over the past year, apparently registered another healthy gain in August. In addition, raw steel production rose for the fifth successive month. However, consumer goods production has continued on a plateau since April. In particular, auto production has been little changed since the spring surge in assemblies.

Capacity utilization in manufacturing apparently edged up fractionally in August to a level slightly above the historical average. With capacity expanding at about a 4 per cent annual rate, further moderate growth in output over the near term would not appear to strain operating rates. In particular, capacity in the materials-producing industries seems generally adequate with utilization rates for most industries well below previous highs. Regional shortages have appeared, however, in the building materials area--particularly cement and gypsum wallboard--and these may have delayed some construction projects.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1977	1978 QI	1978 QII	May 78 to June 78	June 78 to July 78
	- - Average monthly change, in billions of dollars - -				
Total personal income	$13.5	$12.4	$16.2	$12.9	$24.2
Nonagricultural income	12.3	15.7	13.9	12.3	25.0
Agricultural income	1.2	-3.3	2.4	.6	-.8
Wage and salary disbursements	8.4	13.1	10.3	9.0	11.2
Private	7.2	12.2	9.3	8.0	10.2
Manufacturing	2.7	4.0	1.8	1.8	3.0
Other income	5.7	1.0	6.5	4.4	13.7
Transfer payments	1.3	1.0	.1	-.6	8.2
	- - Per cent change, compound annual rate 1/ - -				
Total personal income					
Current dollars	11.2	9.5	12.4	9.2	17.1
Constant dollars 2/	4.1	1.2	.9	-1.3	10.9
Wage and salary disbursements					
Current dollars	10.7	16.2	12.1	9.9	12.2
Constant dollars 2/	3.7	6.3	.6	-.6	6.1

1/ Monthly per cent changes at annual rates, not compounded; 1977, per cent changes from December to December.
2/ Deflated by CPI, seasonally adjusted. Beginning January 1978, deflated by CPI/U, seasonally adjusted.

Personal Income and Consumer Spending

Gains in employment coupled with large wage increases have been the main support to income growth thus far in 1978. In an environment of more rapid inflation, however, real income growth has averaged only a 2 per cent annual rate--about half of that in 1977. In July, private wage and salary disbursements in nominal terms advanced at a $10.2 billion annual rate, comparable to the gains in the first six months of the year. In addition, total personal income in July was boosted by the annual cost-of-living increase in Social Security benefits as well as a step-up in rent and proprietors' income due to California property tax reductions. Income gains apparently were smaller in August as employment growth slowed and wage increases moderated.

After registering large gains early this spring, retail sales have been sluggish in recent months. Excluding autos and mainly nonconsumption items, total retail sales in nominal terms rose .3 per cent in August and were only 1.1 per cent above the second quarter average. Sales at general merchandise, apparel, and furniture and appliance stores as a group edged down in August for the third successive month. Total auto sales, however, were strong again in August. Sales of domestic units were at a 9.8 million annual rate; for July and August, sales averaged 9.4 million units at an annual rate, only 6 per cent below the near-record second quarter pace. Sales of foreign models rose to a 2.1 million unit rate in August perhaps partly because earlier adjustments to exchange rate movements have been partially offset

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

	1978					
	QI	QII	Aug./QII	June	July	Aug.
Total sales	-.1	4.6	.5	.4	-.6	.8
(Real)[1/]	-2.0	2.0	n.a.	-.4	-1.0	n.a.
Total, less auto and nonconsumption items	.3	3.8	1.1	.0	.5	.3
GAF	-3.7	6.1	-.2	-.3	-.2	-.1
Durable	-2.0	7.2	-.3	1.1	-2.1	1.5
Auto	-1.7	6.8	-2.6	.9	-4.5	2.1
Furniture & appliances	-4.2	6.9	.2	-2.0	-.4	1.5
Nondurable	.9	3.4	.9	.0	.2	.4
Apparel	-4.5	6.2	.0	-1.0	2.4	-1.0
Food	3.1	3.3	.8	-.6	.9	.1
General merchandise	-3.2	5.8	-.4	.7	-1.0	-.4
Gasoline	1.9	.1	-.9	.3	-2.5	1.3

1/ Deflated by all commodities SA consumer price index.

AUTO SALES
(Millions of units; seasonally adjusted)

	1978				
	QI	QII	June	July	Aug.
Total	10.8	12.1	11.9	11.0	11.9
Imports	8.8	10.0	9.9	9.0	9.8
Domestic	2.0	2.1	2.0	1.9	2.1

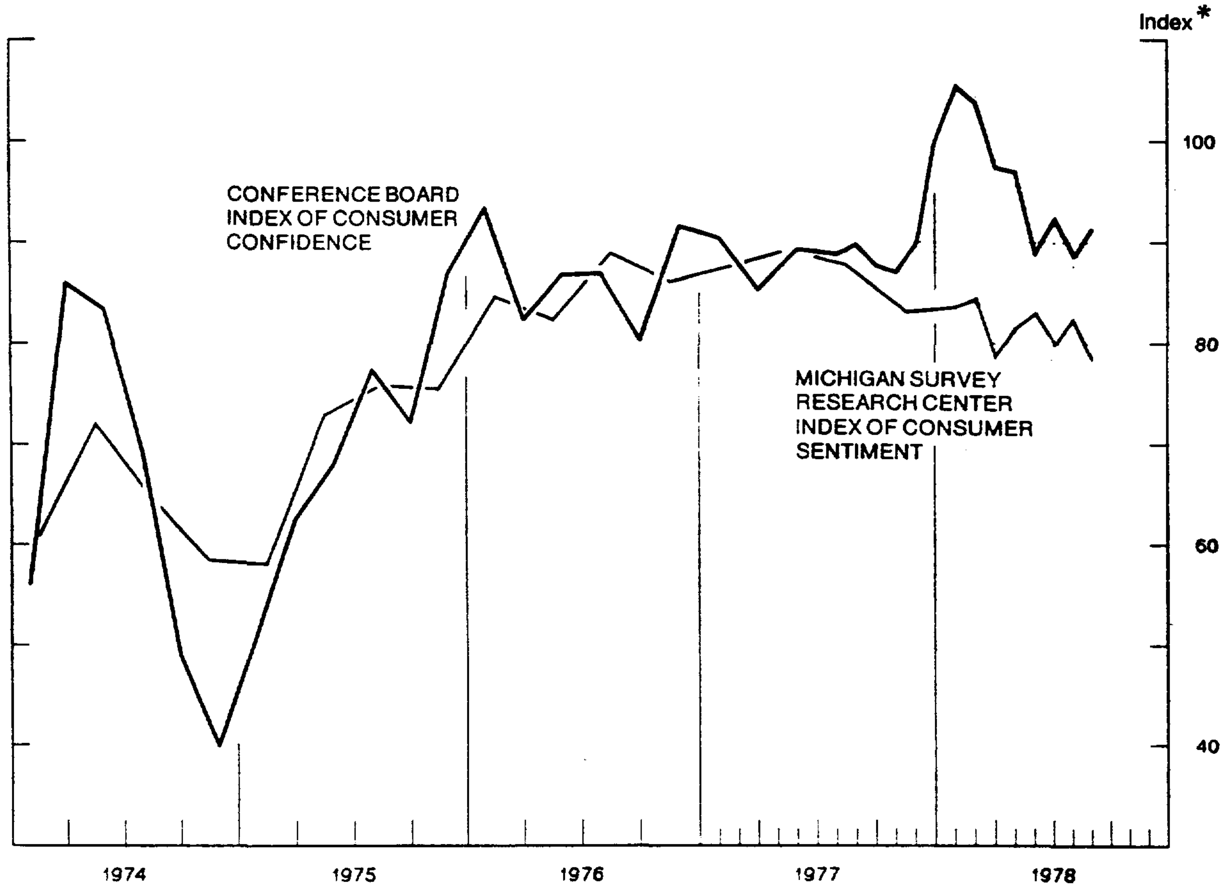
by Detroit's new pricing strategy of numerous small price adjustments during the model year.

Sales of autos and other consumer durable goods have generally continued at a high level with consumer surveys suggesting widespread buying in advance of anticipated further price increases. By its nature, such support tends to be transitory; indeed, the Michigan survey for August indicated that favorable evaluations of the market conditions for buying autos dropped sharply last month and that fewer consumers reported buy-in-advance motives. Moreover, the composite index of consumer sentiment declined significantly. In contrast to the Michigan results, the Conference Board index of confidence edged up slightly in August, continuing in the general range of the last 2-1/2 years but well below the level seen in early 1978.

Residential Construction

Total home sales rose fractionally in July to a level only slightly below the peak rate of late 1977, despite relatively tight mortgage market conditions. Total private housing starts, at a 2.1 million unit annual rate in July, were down only slightly from June. Some weakening has been evident in the single-family sector, where starts have now declined for three successive months. While multifamily starts also edged down in July, they remained well above the year-earlier level. Although these starts have recently been bolstered by HUD's Section 8 rental assistance program and various GNMA tandem plans, non-assisted units continued to account for a large and fairly stable share of the multifamily sector.

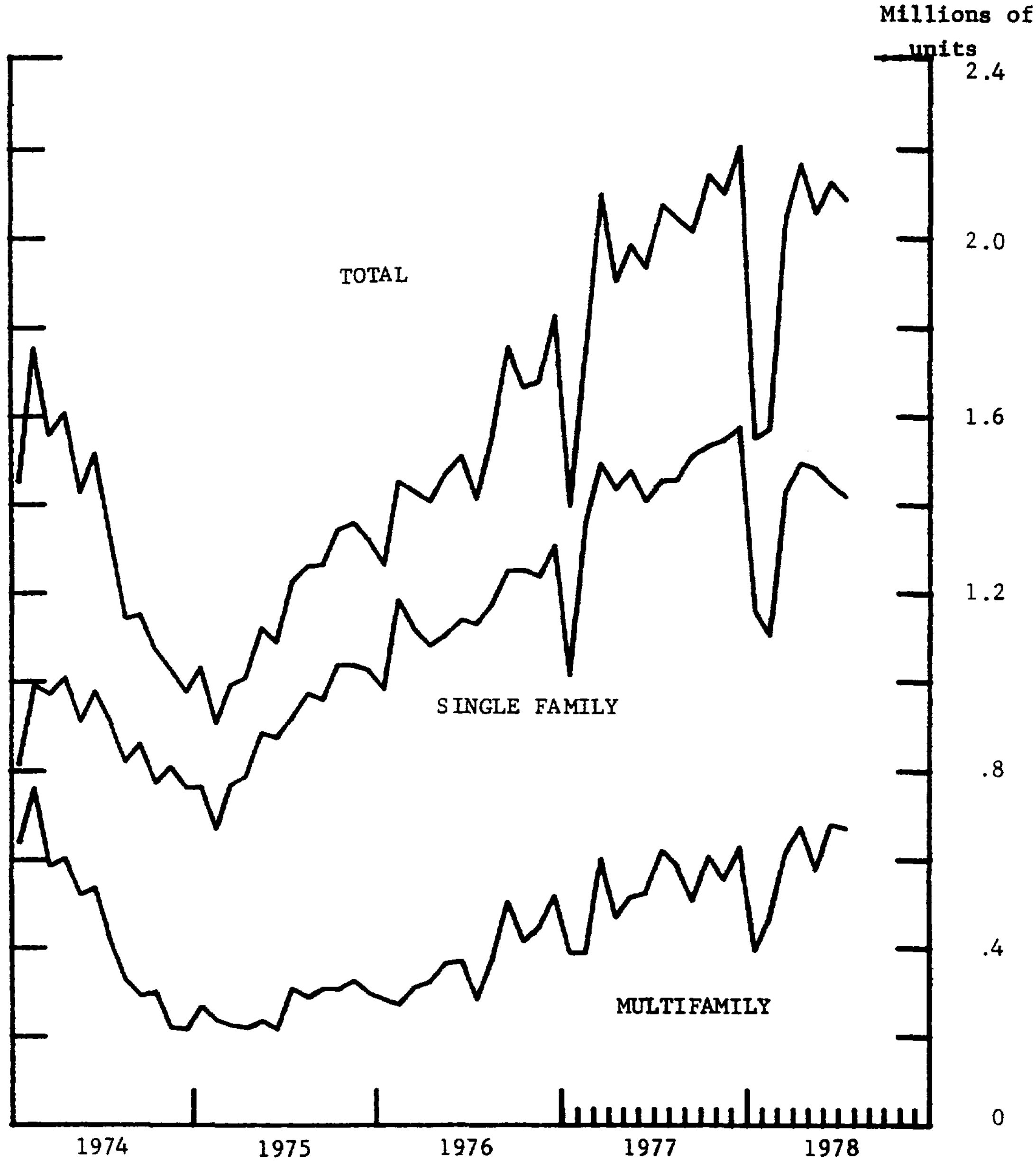
Consumer Attitudes



*Michigan Survey Research Center Index of Consumer Sentiment (1966 Q1=100) and Conference Board Index of Consumer Confidence (1969-1970=100). Bases of indexes are derived from reponses (favorable minus pessimistic) to five equally weighted questions. Questions in the two indexes are not strictly comparable.

Note: CB index plotted middle of bi-monthly period to May-June 1977, and monthly beginning in July 1977; SRC index plotted middle of quarter to 1977 QIV, and monthly beginning in January 1978.

NEW PRIVATE HOUSING STARTS
(Seasonally Adjusted Annual Rate)



Business Investment

Incoming data indicate that growth in capital spending is likely to slow in the near term, with gains concentrated in the construction area. The Commerce Department August survey of plant and equipment spending indicates that business again has raised its plans for the year and now expects a 12.3 per cent nominal increase in 1978. The second quarter increase was larger than business had anticipated earlier; planned growth of spending over the latter half of the year was little changed. If the latest plans are realized, nominal capital spending growth will decelerate to an 11 per cent annual rate over the second half of 1978 after recording a 19 per cent gain over the first half. Historically, this survey has been quite accurate, over-estimating the eventual increase by only small amounts in seven of the past eight years.

Recent appropriations data also suggest that the growth in capital outlays will slow. Manufacturers' newly approved capital appropriations, which on average lead outlays by about a year, fell 18 per cent in the second quarter after having been on a relatively high plateau for the previous three quarters (see appropriations chart). Declines were indicated in 12 of the 17 industry groups for which data are reported.

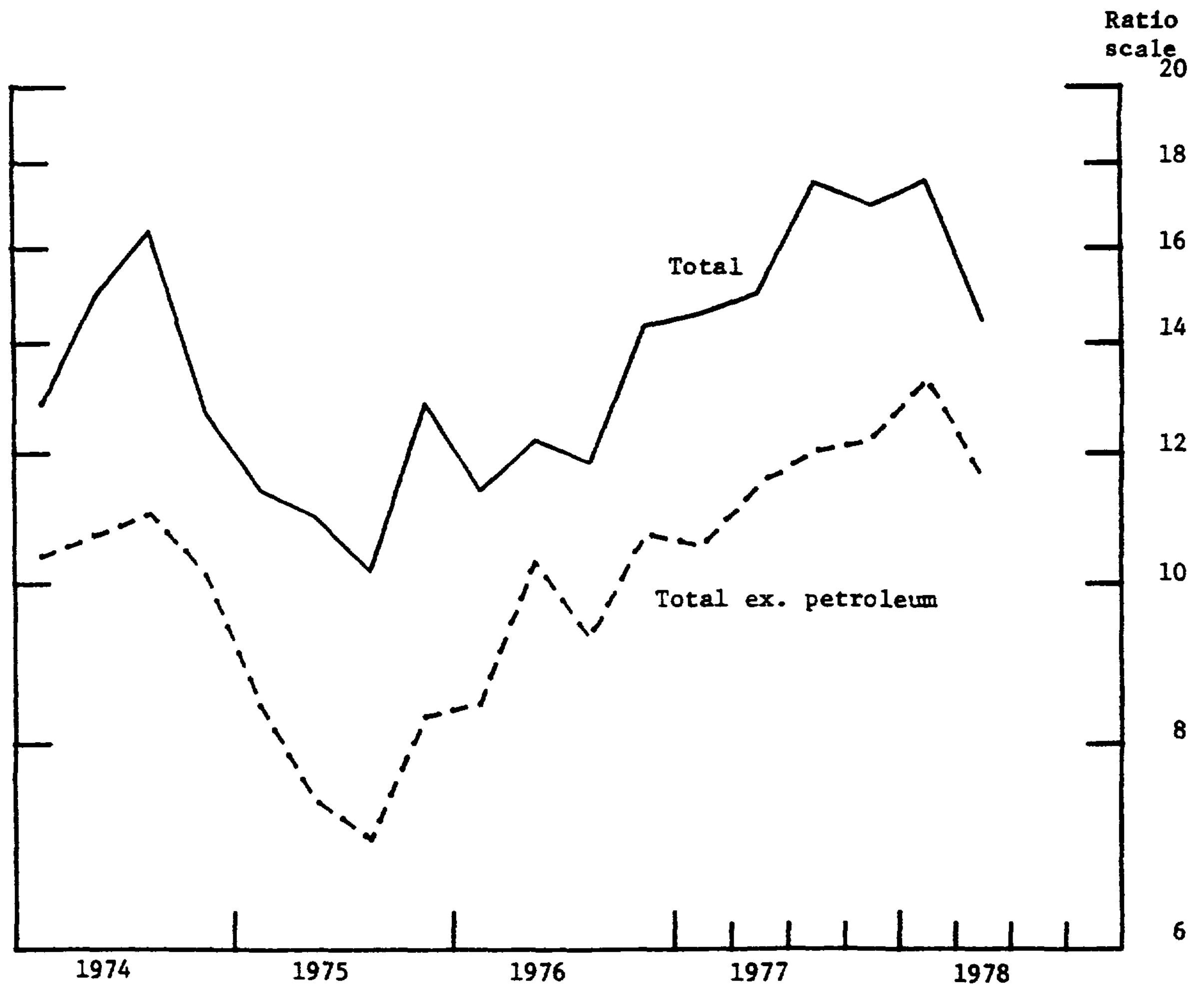
Additional evidence is provided by the trend of new orders for nondefense capital goods which have shown little strength recently. Such bookings fell 8.0 per cent in July and were at their lowest level

PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from preceding year)

		Anticipated for 1978 Commerce Survey Dates			
	1977	Dec. 1977	Feb. 1978	May 1978	Aug. 1978
All Business	12.7	10.1 1/	10.9 1/	11.2 1/	12.3 1/
Manufacturing	14.6	10.4	11.7	11.8	13.1
Durables	17.3	11.7	12.0	11.4	14.0
Nondurables	12.4	9.2	11.5	12.2	12.2
Nonmanufacturing	11.2	9.9	10.4	10.7	11.7
Mining	12.4	18.6	14.1	5.9	5.8
Transportation	-7.0	5.7	5.1	14.6	15.4
Public Utilities	15.8	12.0	14.3	12.2	12.2
Communication	16.2	8.9	9.8	13.0	14.6
Commercial and Other	9.4	7.9	7.1	7.4	9.2

1/ Results are adjusted for systematic bias. Without this adjustment, the Commerce results would have been 10.9 per cent in December, 13.9 per cent in February, 12.9 per cent in May, and 14.1 in August.

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS
(Billions of dollars, S.A.A.R.)



since January. The weakness in July reflected a sharp drop in the volatile commercial aircraft component. The machinery component of these orders, a good indicator of the underlying trend in the demand for equipment, has been virtually flat for six months. Reflecting the recent softness in orders, shipments were unchanged in July and backlogs of unfilled orders declined for the first time in nearly a year.

In contrast to capital equipment, considerable strength continues to be evident in the construction area. The value of private nonresidential construction put-in-place edged up in July, after rising at a 43 per cent annual rate in the first half of the year. Moreover, awards of nonresidential construction contracts almost doubled in July, after dropping sharply in June. While this series has been very volatile from month to month, it generally has been much stronger this year than last. The rise in contract awards for commercial buildings and manufacturing plants has been particularly impressive.

Nonfarm business inventory investment slowed somewhat in June and appears to be slowing further in July, judging from reports on manufacturing and wholesale trade. The book value of manufacturers' inventories rose at a $16.4 billion annual rate in July, less than the rapid pace of the second quarter but comparable to the still brisk pace of the first quarter. The July increase in stocks was accompanied by a 1.4 per cent decline in shipments and the book value inventory to sales ratio in manufacturing rose to 1.55, above the second quarter but still low on an historical basis.

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT[1/]
(Per cent change from preceding comparable period, seasonally adjusted)

	1977		1978				July 77 to
	QIII	QIV	QI	QII	June	July	July 78
Current dollars							
Total	-1.2	5.2	11.7	-4.8	-6.4	2.3	29.1
Nondefense capital goods orders	-1.1	10.3	5.6	3.5	.2	-8.0	19.8
Construction contracts[2/]	-2.1	-17.8	48.4	-40.2	-41.1	94.1	91.3
1972 dollars							
Total	-3.4	3.2	9.4	-5.6	-6.8	.8	19.8
Nondefense capital goods orders	-3.2	8.2	3.5	2.4	-.3	-9.3	11.4
Construction contracts[2/]	-4.0	-19.6	46.5	-40.9	-41.6	92.8	77.2

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 for private nonbuilding projects (e.g., electrical utilities, pipelines, etc.).

2/ FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

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

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	June 1/	July 2/
Manufacturing and trade	31.0	28.3	25.2	17.8	44.2	44.3	32.3	n.a.
Manufacturing	10.6	15.7	10.2	2.8	16.6	22.8	2.4	16.4
Durable	6.4	7.8	7.7	3.8	13.2	15.9	14.6	13.8
Nondurable	4.2	7.9	2.4	-1.0	3.4	6.9	7.8	2.7
Trade, total	20.4	12.6	15.0	14.9	27.6	21.5	9.9	n.a.
Wholesale	12.0	2.6	4.7	7.5	19.5	11.8	4.2	-7.9
Retail	8.4	10.0	10.3	7.4	8.1	9.8	5.8	n.a.
Auto	.8	2.2	1.5	2.9	.9	.2	-1.8	n.a.

1/ Revised.
2/ Preliminary.

INVENTORY RATIOS

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	June 1/	July 2/
Inventory to sales:								
Manufacturing and trade	1.46	1.46	1.48	1.44	1.46	1.42	1.41	n.a.
Manufacturing	1.60	1.60	1.61	1.56	1.56	1.52	1.52	1.55
Durable	1.97	1.96	1.96	1.90	1.90	1.85	1.85	1.91
Nondurable	1.20	1.22	1.22	1.18	1.17	1.14	1.14	1.15
Trade, total	1.33	1.32	1.35	1.33	1.36	1.31	1.31	n.a.
Wholesale	1.24	1.21	1.24	1.23	1.27	1.20	1.20	1.19
Retail	1.41	1.43	1.45	1.42	1.45	1.43	1.42	n.a.

1/ Revised.
2/ Preliminary.

Wholesale trade inventories declined at a \$7.9 billion annual rate in July following a \$11.8 billion increase in the second quarter. In this sector, the inventory to sales ratio edged down. (See Appendix A for a more detailed discussion of the current inventory situation.)

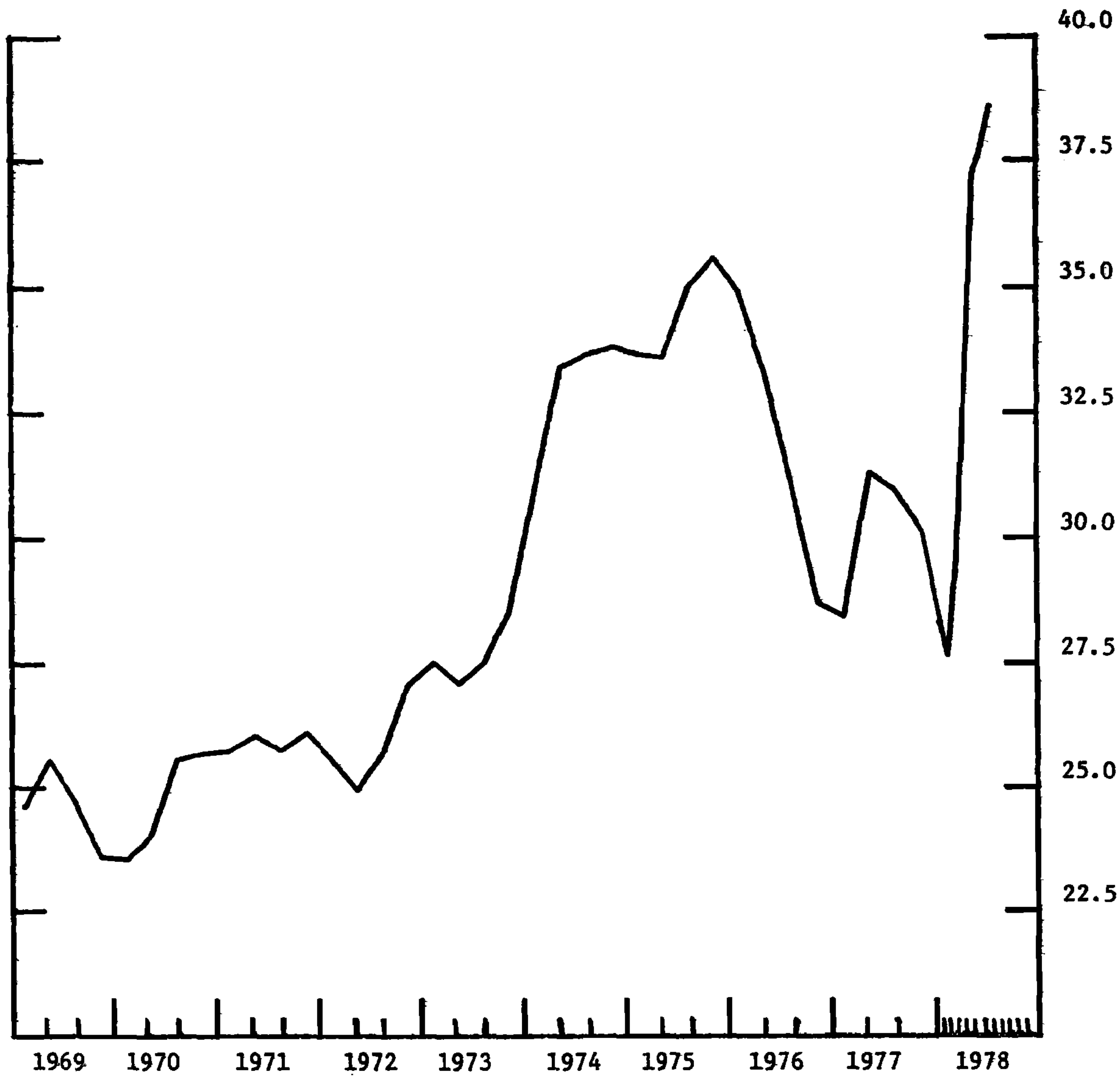
Government Sector Activity

In the Federal sector, unified budget outlays were about \$1.5 billion lower in July than expected by the staff and Administration. Although preliminary data indicate that some of the July shortfall may have been recouped in August, Federal spending in FY 1978 will likely be about \$2 to \$3 billion below the Administration's July estimate of \$452.3 billion. Incoming data on receipts suggest that the Administration revenue estimate of \$401 billion probably will be realized. Thus the resulting deficit for the current fiscal year is likely to be around \$48 billion.

The Second Concurrent Budget Resolutions for FY 1979 passed by the House and Senate imply deficits in the \$40-42 billion range, well below the \$48-1/2 billion deficit estimated by the Administration in July. These resolutions allow for tax cuts ranging from \$12 billion to \$15 billion for FY 1979. Final action on the budget totals is expected by September 15 when the Congress sets binding receipt and outlay ceilings for the coming fiscal year.

State and local government construction expenditures have continued to increase sharply. The value of construction put-in-place

STATE AND LOCAL GOVERNMENT CONSTRUCTION PUT-IN-PLACE
(Billions of dollars, S.A.A.R.)



by States and localities in July was 2 per cent above the upward-revised June level. As the following chart shows, the record level of construction spending in July is almost 25 per cent above that of a year ago.

However, employment by States and localities fell in August for the second month in a row. The cutbacks were concentrated in educational employment, suggesting that much of the decline probably was due to the downward trend in school enrollments. The effects of Proposition 13 in California also may have been a factor.

Prices and Wages

As expected, recent price data show considerable improvement in the food category. After rising at an 18-1/2 per cent annual rate during the first half of 1978, retail food prices leveled off in July in part due to a sizable decline in meat prices. In addition, producer price data for August indicate declines for both crude materials for food and finished foods. Prices were lower for grains, coffee, poultry, and livestock, with the latter decline somewhat greater than expected. At the finished level, prices fell sharply for fresh fruits, vegetables and eggs, while beef prices continued to decline at the rapid July rate.

Excluding food, consumer prices rose at an 8 per cent annual rate in July--close to the average rate recorded in the first half of 1978. Energy items rose less than in June due to a decline in electricity rates which had been climbing rapidly for 5 months. There was also some moderation for other commodities due largely to declining apparel prices.

However, in the service area, increasing house prices and home financing costs continued to keep pressure on the overall consumer price level.

Producer prices for finished nonfood items increased moderately in August following earlier bursts associated with sharp increases for cars, trucks, and jewelry. Producer prices for consumer finished goods excluding food rose 0.4 per cent in August. A decline in truck prices slowed the rise in capital equipment to 0.4 per cent in August. Intermediate materials prices accelerated somewhat because of rises in steel mill products and in construction materials, while crude nonfood materials prices declined somewhat in August following two months of very large increases.

Wage rates as measured by the hourly earnings index were little changed in August after increasing sharply in July. So far this year, this measure of wages has advanced at just over an 8 per cent annual rate--about 1/2 percentage point faster than over 1977. There have been particularly large increases in trade wages this year, reflecting in part the large minimum wage adjustment. In addition, there has been a significant acceleration in construction wages, which has accompanied this year's burst of nonresidential building activity.

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

	Relative Importance Dec. 1977	1977 1st half	1977 2nd half	1978 QI	1978 QII	1978 July	1978 Aug.
Finished goods	41.2	8.2	5.0	9.6	11.2	6.2	-1.2
Consumer foods	10.3	10.9	2.4	21.2	14.6	-4.0	-18.4
Consumer nonfoods	18.7	8.4	4.3	5.3	10.5	12.5	5.2
Capital equipment	12.2	5.9	8.4	7.1	9.1	6.0	4.2
Materials:							
Intermediate 2/	45.5	7.2	5.6	9.2	6.0	5.0	8.3
Crude nonfood	4.6	7.4	6.6	16.2	11.9	27.8	-5.8
Crude food	6.3	1.7	1.3	40.3	28.1	-30.4	-21.1
Memo: Energy 3/	11.3	19.0	5.1	4.3	9.9	5.9	1.8

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
3/ Fuels and related products and power.

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

	Relative Importance Dec. 77 2/	1977 1st half	1977 2nd half	1978 2/ QI	1978 2/ QII	1978 2/ June	1978 2/ July
All items	100.0	8.9	4.7	9.3	11.4	10.5	6.1
Food	17.7	13.4	3.0	16.4	20.4	15.9	-.6
Commodities (nonfood)	41.6	5.8	4.0	6.1	7.2	7.6	6.9
Services	40.7	9.6	6.3	9.1	11.8	10.3	9.7
Memoranda:							
All items less food and energy 3/	73.7	7.7	5.2	8.0	9.9	10.3	8.3
Gas and electricity	3.4	12.2	5.3	12.2	22.1	21.7	6.1
Gasoline and fuel oil 4/	5.2	11.2	1.4	.2	8.4	13.2	13.7
Home financing, taxes, and insurance	9.2	15.3	7.3	16.7	21.6	16.5	16.8

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Based on new index for all urban consumers.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.
4/ Includes motor oil, coal, and bottled gas.

HOURLY EARNINGS INDEX[1/]
(Per cent changes, based on seasonally adjusted data)

	Dec. 75 to Dec. 76	Dec. 76 to Dec. 77	Dec. 76 to Aug. 77[2/]	Dec. 77 to Aug. 78[2/]
Total private nonfarm	6.9	7.6	7.3	8.1
Manufacturing	7.5	8.0	8.2	8.1
Contract construction	5.3	4.8	4.7	8.2
Transportation and public utilities	7.0	8.8	6.5	5.3
Total trade	7.0	7.6	7.0	9.3
Services	7.0	7.9	8.1	7.5

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Computed at a compound annual rate.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	August	37.9	-7.9	7.2	6.9
Nonborrowed reserves	August	36.8	-2.3	8.3	6.9
Money supply					
M1	August	354.1	7.5	6.3	7.6
M2	August	854.0	10.6	9.1	8.4
M3	August	1455.4	11.8	10.0	9.4
Time and savings deposits (less CDs)	August	500.0	13.1	11.1	9.0
CDs 2/	August	86.2	-1.2	-.9	23.0
Thrift deposits (S&Ls + MSBs + Credit Unions)	August	601.4	13.5	11.4	10.9
Bank credit (end of month)	August	943.9	5.2	9.4	11.0

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	9/6/78	8.30	.41	.83	2.33
Treasury bill (90 day)	"	9/6/78	7.60	.84	.99	2.03
Commercial paper (90-119 day)	"	9/6/78	8.07	.29	.73	2.19
New utility issue Aaa	"	9/8/78	8.77	-.04	-.27	.75
Municipal bonds (Bond Buyer)	1 day	9/7/78	6.13	.10	-.05	.65
FNMA auction yield (FHA/VA)		9/5/78	9.78	-.04	-.08	1.04
Dividend price ratio (common stocks)	wk. endg.	9/6/78	4.88	-.03	-.19	.15
NYSE index (12/31/65=50)	end of day	9/11/78	60.38	1.85	4.49	7.84

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1977	Year to Date 1976
		$ billions			
Credit demands					
Business loans at commercial banks 1/	Aug.	2.3	1.9	22.7	15.0
Consumer instalment credit outstanding 1/	Jul.	3.3	2.5	23.9	17.5
Mortgage debt outstanding (major holders) 1/3/	Jun.	9.7	9.3	51.7	44.6
Corporate bonds (public offerings)	Aug.	1.5e	1.9	13.8e	16.4
Municipal long-term bonds (gross offerings)	Aug.	6.1e	4.1	34.1e	31.9
Federally sponsored agcy. (net borrowing)	Aug.	1.9	.1	15.0	4.5
U.S. Treasury (net cash borrowing)	Sept.	2.8	10.0	38.4	36.1

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
3/ Includes comm'l banks, S&L's, MSB's, life ins. cos., FNMA, and GNMA.

e Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Credit flows remained strong in August. Bond issuance by States and localities was especially large, as borrowing to finance new projects continued at about the pace of other recent months and was augmented by a record level of refunding activity. Proceeds from the refundings were channeled into nonmarketable Treasury debt, and the Treasury also issued a substantial volume of marketable debt over the month. Mortgage formation apparently accelerated a little in August, and preliminary indications also suggest that expansion of consumer instalment debt picked up a bit in August after dropping off in July. The pace of business borrowing in short-term credit markets slipped in August, but public bond offerings by nonfinancial corporations were somewhat above the depressed pace of earlier this year.

M-1 grew more rapidly in August than in the preceding two months, and inflows of savings and consumer-type time deposits at banks and thrift institutions accelerated. Banks and thrifts continued to supplement these deposits with other sources of funds, although to a lesser extent than in the preceding month.

The rally in credit markets that began in late July ended during the early part of August. Short-term interest rates began rising just prior to the August FOMC meeting. Then after the meeting, the System's policy actions--the 50-basis-point hike in the discount rate and a rise in the Federal funds rate of about the same amount--placed additional pressures on short-term yields. Short-term market rates generally have advanced 50 to 75

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/				Change from:	
	High	Low	FOMC July 18	FOMC August 15	Sept. 5	Sept. 12	July FOMC	Aug. FOMC
Short-term rates								
Federal funds 1/	6.65	4.47	7.94	7.87	8.30	8.34 3/	+.40	+.47
Treasury bills								
3-month	6.27	4.41	7.09	6.99	7.57	7.75	+.66	+.76
6-month	6.51	4.55	7.46	7.31	7.67	7.85	+.39	+.54
1-year	6.62	4.67	7.78	7.67	7.84	7.93	+.15	+.26
Commercial paper								
1-month	6.58	4.53	7.75	7.61	8.00	8.28	+.53	+.67
3-month	6.66	4.63	7.88	7.76	8.10	8.38	+.50	+.62
Large negotiable CDs 4/								
3-month	6.62	4.60	8.13	7.80	8.25	8.45	+.32	+.65
6-month	6.84	4.65	8.65	8.38	8.80	8.85	+.20	+.47
Bank prime rate	7.75	6.25	9.00	9.00	9.25	9.25	+.25	+.25
Intermediate- and long-term rates								
Corporate								
New AAA	8.36	7.90	9.17	8.81	8.80	8.77p	-.40	-.04
Recently offered 6/	8.48	7.95	9.22	8.89	8.85	8.81p	-.41	-.08
Municipal (Bond Buyer) 7/	5.93	5.45	6.32	6.03	6.16	6.13	-.19	+.10
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	8.54	8.27	8.38	8.34	-.20	+.07
7-year	7.66	6.48	8.54	8.39	8.35	8.32	-.22	-.07
20-year	7.96	7.20	8.68	8.51	8.40	8.34	-.34	-.17

	Low 8/	High 8/	FOMC July 18	FOMC August 15	Sept. 5	Sept. 12	July FOMC	Aug. FOMC
Stock prices								
Dow-Jones Industrial	807.74	985.74	829.00	887.13	886.61	906.44	+77.44	+19.31
N.Y.S.E. Composite	50.13	56.98	54.45	58.48	58.91	60.38	+5.93	+1.90
AMEX	110.37	126.86	150.17	161.56	171.06	176.69	+26.52	+15.13
Keefe Bank Stock 6/	530	633	632	690	687	687	+55	-3

1/ Daily averages for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending September 13.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

basis points since the August FOMC meeting. Long-term yields, on the other hand, have shown little reaction either to the tightening in System policy or to the heavy calendar of noncorporate issues. The lack of response in bond markets appears to reflect the presence of some sentiment that, in light of the moderating of economic activity, long-term interest rates may be near their peaks for the current expansion.

Monetary Aggregates

Growth of the monetary aggregates accelerated in August to a 7-1/2 per cent annual rate for M-1 and to a 10-1/2 per cent rate for M-2. During June and July, M-1 had expanded at an average rate of 5-3/4 per cent, and M-2 at slightly more than 8 per cent. This earlier slowdown of monetary expansion appears in part to have reflected the transitory effects of a much greater than seasonal increase in Treasury deposits and a contra-seasonal decline in foreign official and foreign commercial bank balances. In August the effects of these movements dissipated.

Time and savings deposits included in M-2 expanded in August at their most rapid rate in more than a year; a sharp further advance in large-denomination deposits included in this aggregate accounted for nearly half of this total growth. Small time deposit growth abated, perhaps signaling a tapering off at commercial banks of the major stock adjustment to the new money market certificate. Savings deposits rose moderately in August, following two months of decline. Since short-term market interest rates continue to be well above the ceiling rate on bank savings deposits, this is a puzzling and probably temporary phenomenon; the growth could reflect a changing seasonal pattern to the series.

MONETARY AGGREGATES
(Seasonally adjusted)1/

	1977 QIV	1978 QI	QII	June	July	Aug.p	Aug. '77 to Aug. '78p
Major monetary aggregates							
1. M-1 (currency plus demand deposits)	7.5	5.6	9.5	5.9	5.5	7.5	7.6
2. M-2 (M-1 plus time & savings deposits at CBs other than large CDs)	8.2	6.9	8.3	7.8	8.6	10.6	8.4
3. M-3 (M-2 plus all deposits at thrift institutions)	10.7	7.7	8.0	8.4	9.7	11.8	9.4
Bank time and savings deposits							
4. Total	13.1	13.4	11.0	6.7	10.8	8.7	12.3
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	8.6	7.9	7.4	8.9	11.0	12.9	9.0
6. Savings deposits	5.4	2.6	1.6	-1.6	-4.3	8.7	2.5
7. Individuals 2/	6.6	2.4	2.1	-2.3	-0.6	10.5	3.4
8. Other 3/	-7.6	2.6	-5.2	15.8	-54.5	-16.3	-8.2
9. Time deposits	11.6	12.7	12.3	18.1	23.7	15.8	14.8
10. Small time 4/	3.4	6.1	10.3	14.0	11.1	7.6	7.9
11. Large time 4/	28.3	25.5	15.5	24.4	47.8	30.3	28.9
12. Time and savings deposits subject to rate ceilings (6+10)	4.5	4.0	5.5	5.2	2.4	8.2	4.8
Deposits at nonbank thrift institutions 5/							
13. Total	14.4	8.9	7.6	9.2	11.2	13.5	10.9
14. Savings and loan associations	15.4	9.0	7.9	9.9	12.8	15.6	11.6
15. Mutual savings banks	9.9	5.8	3.9	4.4	6.2	7.9	6.5
16. Credit unions	20.0	18.2	15.8	16.8	11.8	11.7	18.0
	Average monthly changes, billions of dollars						
MEMORANDA:							
17. Total U.S. govt. deposits	0.2	-1.2	1.1	4.0	2.9	0.7	0.4
18. Total large time deposits 6/	5.7	4.4	2.8	1.5	4.5	1.3	3.8
19. Nondeposit sources of funds 7/	1.5	1.7	0.7	1.0	0.0	2.1	1.3

p—preliminary.
1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of business, government, and others, not seasonally adjusted.
4/ Small time deposits in denominations less than $100,000.
Large time deposits are time deposits in denominations of $100,000 and above excluding negotiable CDs at weekly reporting banks.
5/ Growth rates computed from monthly levels based on average of current and preceding end-of-month data.
6/ All large time certificates, negotiable and nonnegotiable, at all CBs.
7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

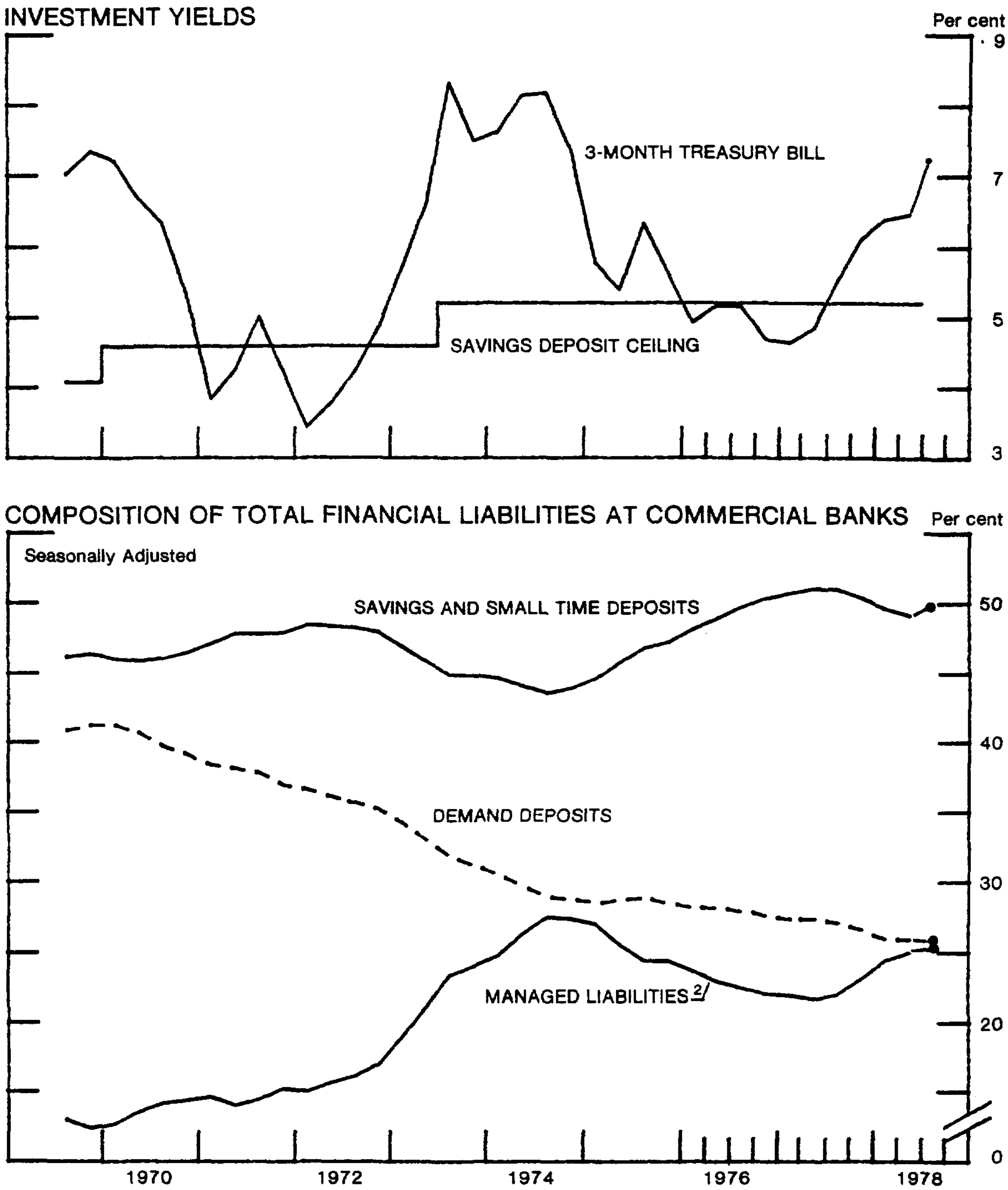
Survey results available only for S&Ls indicate that the 6-month money market certificate attracted a sizable volume of deposits during August--albeit at a slower pace than in the previous two months. Inflows to the certificates totaled about $3 billion, as compared to sales in the $5 to $6 billion range in June and July. Separate estimates for time and savings deposits at thrift institutions are not available for August, but in June and July S&L savings deposits declined while time deposit growth was extremely high.

Sales of the money market certificates contributed importantly to the continuation of the rapid growth of total deposits at S&Ls in August, which expanded at about a 15-1/2 per cent annual rate. The recent increased deposit flows, as well as reduced mortgage lending, enabled S&Ls to increase their holdings of liquid assets in July, the most recent month of data. Following ten months of decline, the liquidity ratio of insured S&Ls increased to 8.7 per cent on a seasonally adjusted basis. Deposits at mutual savings banks grew at about an 8 per cent rate during August, and combined thrift deposit growth is estimated to have been about 13-1/2 per cent last month, the highest since October 1977.

Despite rising market interest rates, both banks and S&Ls are experiencing relatively rapid growth in total liabilities. The strategy of commercial banks to maintain growth of liabilities is illustrated in the chart on page III-6. Since mid-1977, savings and small time deposits have declined as a per cent of total financial liabilities, in association with the cyclical increase in market yields above maximum rates payable

Short-Term Market Yields and the Composition of Financial Liabilities at Commercial Banks

Quarterly Averages 1/



1/ Last full quarter shown is second quarter 1978; the last plot is the July-August average.

2/ Includes all time deposits of $100,000 or more, Federal funds purchased and securities RPs, other liabilities for borrowed money including borrowings from the Federal Reserve, Eurodollar borrowings and loans sold. Excludes interbank borrowings.

on deposits subject to Regulation Q.[1] Over this period, bank reliance on managed liabilities has increased; the share of total liabilities accounted for by these money market instruments is only about two percentage points less than at the cyclical peak in the third quarter of 1974.

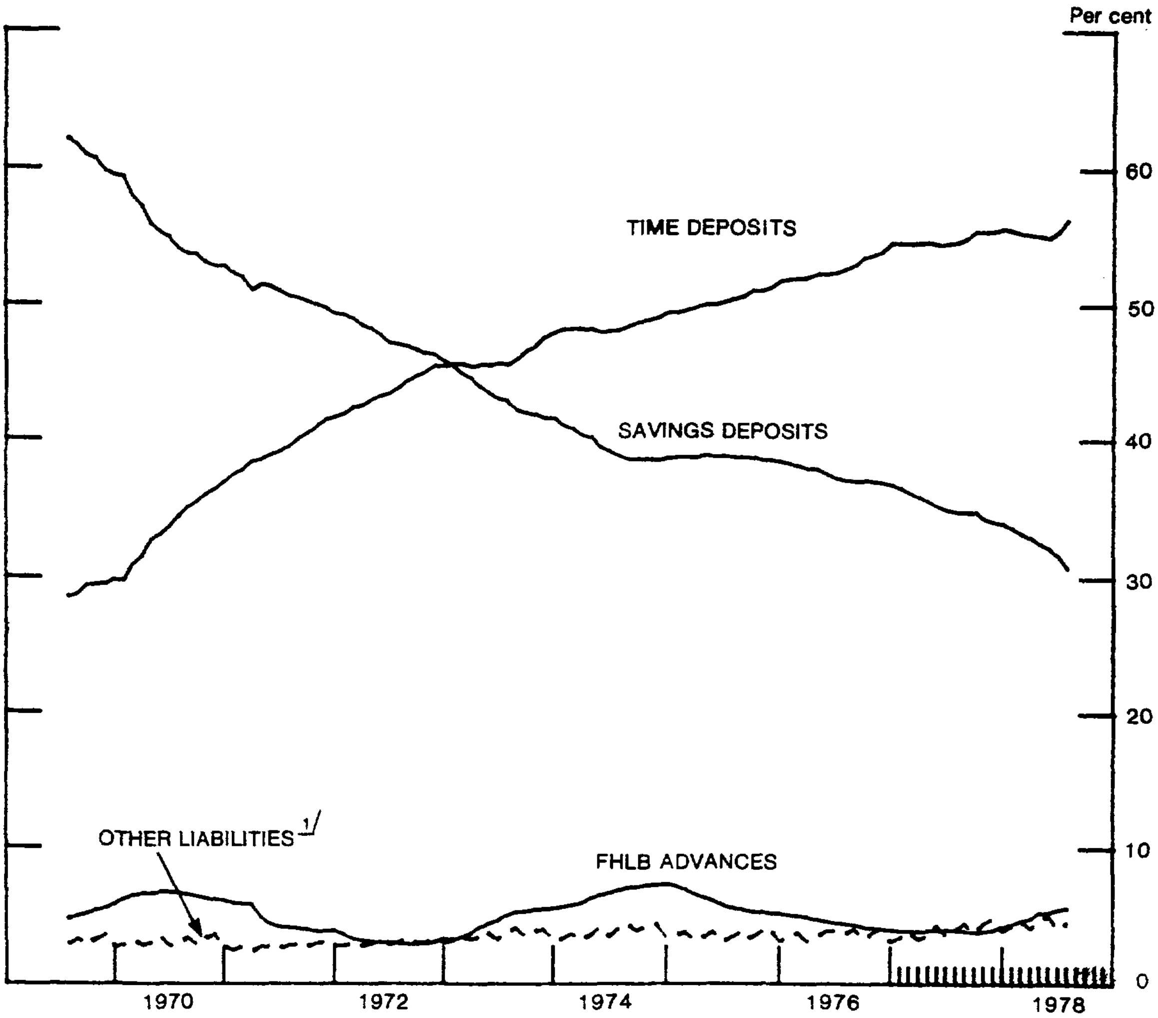
The composition of liabilities at thrift institutions has changed only mildly over the last year compared to that of commercial banks. But as shown in the chart on page III-8, the relaxation of ceiling rates on time deposits through authorization of the 6-month money market certificate has already resulted in a visible rise in the proportion of S&L liabilities accounted for by time deposits. Advances from the FHLBs as a proportion of liabilities have risen in typical cyclical fashion in recent months, but the proportion is still well below the highs of late 1974 and early 1975. The increasing use of funds that bear essentially market rates of interest is tending to raise the average cost of funds to S&Ls.

Bank Credit

The recent monthly pattern of growth in commercial bank credit, which surged in July and dropped in August, was significantly distorted by a similar pattern in System-matched sale-purchase agreements which gave rise to volatile movements in security loans.

1/ Yields on market securities generally have been above Regulation Q ceilings throughout the maturity range--except for the new 8-year instrument--since the fourth quarter of 1977.

Composition of Total Financial Liabilities of Savings and Loan Associations



NOTE: All of the components of total liabilities are seasonally adjusted, except for "other liabilities."

1/ Other liabilities defined as total liabilities less deposits, FHLB advances and loans in process.

NOTE: Last data plotted: July 1978

Abstracting from movements in security loans, the August deceleration in bank loans was considerably less. Business loans net of bankers acceptances slowed to a 9-3/4 per cent annual rate of growth in August, but real estate lending showed another large increase.

Small banks liquidated a substantial volume of Treasury securities as their lending expanded rapidly. Despite sizable security acquisitions by large banks in the Treasury's mid-quarter refunding in August, bank investments on balance declined by nearly $1 billion last month--the only decline since March.

Business Credit

The financing gap of nonfinancial businesses is estimated to be narrowing during the current quarter, and business borrowing in short- and intermediate-term financial markets has decelerated noticeably over the summer. During the first five months of the year, business loans at commercial banks (net of holdings of bankers acceptances) grew at a 21-1/2 per cent annual rate, but since the end of May such lending has grown at only half that rate.[2] Commercial paper issuance and business loans from finance companies have only partially made up the difference. At the same time, nonfinancial corporations' gross public offerings of bonds--although picking up somewhat since mid-year--have remained at a relatively low level.

2/ On the August Lending Practices Survey, discussed in detail in an appendix there was a sharp decline in the proportion of lending officers at responding banks reporting stronger business loan demand.

COMMERCIAL BANK CREDIT

(Per cent changes at annual rates, based on seasonally adjusted data)[1/]

	1977 QIV	1978 QI	QII	June	July	August	12 months ending August
Total loans & investments[2/]	9.5	9.7	13.5	6.0	16.7	5.2	11.0
Investments	-5.1	3.3	8.6	5.5	9.2	-5.5	1.6
Treasury securities	-20.3	--	11.7	16.1	15.9	-32.5	-5.3
Other securities	4.6	5.3	6.7	-0.7	5.2	11.0	6.1
Total loans[2/]	15.8	12.3	15.4	6.2	19.6	9.4	15.2
Business loans	11.7	16.3	19.0	6.0	10.8	12.3	15.2
Security loans	-10.4	-29.9	62.4	76.6	54.0	-132.1	-1.1
Real estate loans	17.8	16.1	17.2	16.5	16.9	18.5	18.4
Consumer loans	15.5	14.6	21.0	22.8	14.9	n.a.	n.a.
MEMORANDA:							
1. Commercial paper issued by nonfinancial firms[3/]	15.8	-2.5	30.6	51.9	56.8	-6.8	17.3
2. Business loans at banks net of bank holdings of bankers acceptances	12.6	17.8	19.5	6.1	13.7	9.8	16.2
3. Sum of items 1 & 2	12.8	16.1	20.3	8.7	16.8	8.5	16.3
4. Memo item 3 plus business loans from finance companies	16.4	15.5	18.6	9.0	14.7	n.a.	n.a.

n.a.--not available.

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 to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

3/ Measured from end of month.

Business loan growth at New York money center banks was comparatively strong in late August and may partly explain a slight contraction in nonfinancial commercial paper outstanding. Also, several large utilities were reported to have paid down their paper indebtedness with the proceeds of capital market financings. Total business borrowing from banks and the commercial paper market grew at an 8-1/2 per cent rate in August, well below the pace during July. Commercial paper issued by financial businesses, including bank holding companies, also contracted in August, and total commercial paper experienced its largest monthly decline in over a year.

Business lending by finance companies slowed further in July, the most recent monthly data available. The 7 per cent rate of increase was the lowest since last fall. With automobile dealer inventories declining further, the wholesale auto category continued to be an area of weakness in lending at finance companies.

In the capital market, about $1.3 billion of nonfinancial corporations' bonds were offered to the public in August, the same as in July. Public bond offerings by financial concerns were reduced sharply in August, paring the total slate of new issues to $1.5 billion. Since the August FOMC meeting, major stock price indexes have risen to their highest levels of the year. Stock offerings increased to $600 million in August, with new common and preferred stock issues by public utilities accounting for about one-half of the total. The number of new stock issues by small industrial concerns also has ben larger in recent

COMMERCIAL PAPER
(Monthly totals or monthly averages, seasonally adjusted, billions of dollars)[1/]

	Net Changes in Outstandings							
	1977	1978					12 mos. ending	Outstanding Aug. 31,
	QIV	QI	QII	June	July	Aug.	Aug.	1978
Total commercial paper outstanding	1.2	.8	2.4	3.3	.4	-.9	1.2	74.0
Bank-related	.1	.3	.7	.6	.6	-.1	.4	12.6
Nonbank-related	1.1	.5	1.7	2.8	-.3	-.8	.8	61.4
Financial	.9	.5	1.3	2.1	-1.1	-.7	.6	43.8
Dealer	--	.1	.3	-.2	.1	-.1	.1	7.9
Direct	.9	.5	1.0	2.3	-1.2	-.7	.5	35.9
Nonfinancial	.2	-.1	.4	.7	.8	-.1	.2	17.6

1/ Seasonally adjusted figures are unavailable for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted non-bank related data to obtain the total for commercial paper outstanding.

NOTE: Components may not add to totals due to rounding.

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

	1977	1978					
	Year	QI	QII e/	July e/	Aug. e/	Sept. f/	Oct. f/
			Gross Offerings				
Corporate securities--total	4,518	3,370	3,998	3,400	2,900	3,400	3,700
Publicly offered bonds	2,016	1,582	1,819	2,100	1,500	1,500	1,800
By quality 1/							
Aaa and Aa	1,089	765	883	1,025	1,025	--	--
Less than Aa 2/	927	817	936	1,075	475	--	--
By type of borrower							
Utility	692	475	575	885	825	--	--
Industrial 3/	700	546	619	390	450	--	--
Financial	624	561	625	825	225	--	--
Privately placed bonds	1,501	1,128	1,387	800	800	1,200	1,000
Stocks	1,001	660	791	500	600	700	900
Foreign securities--total	621	537	743	334	125	--	--
Publicly offered 4/	437	425	507	100	125	100	100
Privately placed	184	112	236	234	--	--	--
State and local gov't. securities--total	5,771	5,176	7,132	5,344	7,600	5,500	4,500
Long-term	3,891	3,598	4,486	3,716	6,100	3,000	3,000
Short-term	1,880	1,578	2,646	1,628	1,500	2,500	1,500
			Net Offerings				
U.S. Treasury							
Sponsored Federal agencies							

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

months, in part due to their stronger stock price performances as indicated by the relatively greater rise in the ASE and NASDAQ indexes than in NYSE indexes.

Government Finance

New issues of tax-exempt bonds surged to a record $6.1 billion in August. The increase in offerings resulted in part from a rush to market advance refunding bonds before the September 1 effective date of IRS and Treasury rulings that reduced the attractiveness of such operations.[3] However, a large volume of new money issues also was offered during the month. With the heavy August calendar, yields on municipal bonds have edged up since the last FOMC meeting.

The Treasury raised an unusually large amount of new cash through sales of nonmarketable securities in August--about $4.9 billion. An extraordinarily large volume of special arbitrage bonds--$3.2 billion--was issued to State and local Governments. Foreign central banks purchased another $1.4 billion of nonmarketable issues, with the Swiss accounting for most of this total. Treasury marketable borrowing has amounted to about $3.4 billion since mid-August, all in the coupon sector, except for $500 million of new cash raised in the regular monthly auction of 52-week bills in mid-August. For the third quarter

3/ New Treasury procedures pertaining to municipal debt offerings include the penalty of revocation of the tax-exempt status of outstanding issues that do not strictly conform to regulations. Formerly, the most severe penalty applied was not granting tax exemption to subsequent bond offerings by the issuer. Also effective September 1 was a change in IRS regulations regarding the administrative costs of issuers of arbitrage bonds that will directly raise the effective cost of issuance of such bonds.

as a whole, the Treasury is expected to raise about $9.4 billion of new cash in the market (on a settlement date basis)--over $1.6 billion in the form of security sales to foreign accounts. Largely as a result of the unexpectedly large volume of nonmarketable securities sold in August, the Treasury is expected to end the quarter with a cash balance close to $20 billion (not seasonally adjusted).

The recent rise in yields on short- and intermediate-term Treasury securities has had mixed impacts on noncompetitive tenders in Treasury auctions. In most regular Treasury bill auctions, noncompetitive tenders generally have remained below levels recorded in auctions earlier in the year; this very likely reflects the introduction of the 6-month certificate at banks and thrift institutions. On the other hand, total noncompetitive tenders in coupon auctions amounted to almost $3 billion in August--primarily accounted for by the large amount of such tenders in the mid-quarter refunding.

During the month of August, total sponsored agency borrowing amounted to $2.9 billion on a settlement basis. For the quarter to date, their borrowing has been about $5 billion, somewhat below the pace of the second quarter. The Federal housing agencies continue to account for the major part of agency borrowing, as the needs of farm credit agencies remain moderate.

Mortgage Markets

Owing in part to the relative success of the new certificate in maintaining overall deposit flows at thrift institutions, pressures in the mortgage market have apparently eased somewhat in recent weeks.

While about three-fifths of the S&Ls continued to report supplies of mortgage funds below normal seasonal patterns, the proportion reporting funds in substantially short supply has dropped to one-sixth from as high as one-third in early June. Reflecting a 25-basis-point reduction in rates in the West, average interest rates on new commitments for conventional home mortgages at sampled S&Ls have edged down since the last FOMC meeting. In the secondary markets, average yields have fallen moderately since mid-August.

Aggregate mortgage loan volume in August apparently picked up somewhat from the pace of other recent months. Real estate loans at commercial banks continued to grow rapidly, increasing by an estimated $3.5 billion. Issues of GNMA-guaranteed securities rose to $1.6 billion from the $1.0 billion rates of June and July, although FNMA purchases of FHA/VA mortgages were below the average rate of recent months. Net mortgage acquisitions by S&Ls--which in July were one-third below the peaks of late 1977 and the lowest in 2 years--probably recovered somewhat in August, given the substantial rebound in funds flows in recent months. The chart on page III-18 shows the close but lagged relationship between funds flows at S&Ls and their mortgage lending. Mortgage commitments outstanding at S&Ls were about unchanged in July, following six consecutive months of decline, as new commitment activity held near the improved June pace.

Spreads between the primary yields on conventional mortgages and yields on high-grade bonds have been relatively wide in recent months and have provided an incentive for diversified lenders to invest

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS AT SELECTED S&Ls

Period	Conventional home mortgages: 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 2/ with mortgage funds in short supply
1977--High	9.00	--	+92	22
Low	8.65	--	+37	2
1978--High	9.80	--	+100	69
Low	9.00	--	+30	19
1978 Apr	9.43	+18	+51	54
May	9.68	+25	+66	67
June	9.73	+ 5	+57	64
July	9.75	+ 2	+67	62
Aug 4	9.78	+ 3	+88	63
11	9.78	0	+97	58
18	9.78	0	--	59
25	9.80	+ 2	+100	57
Sep 1	9.75	- 5	+95	60
8	9.75	0	+98	57

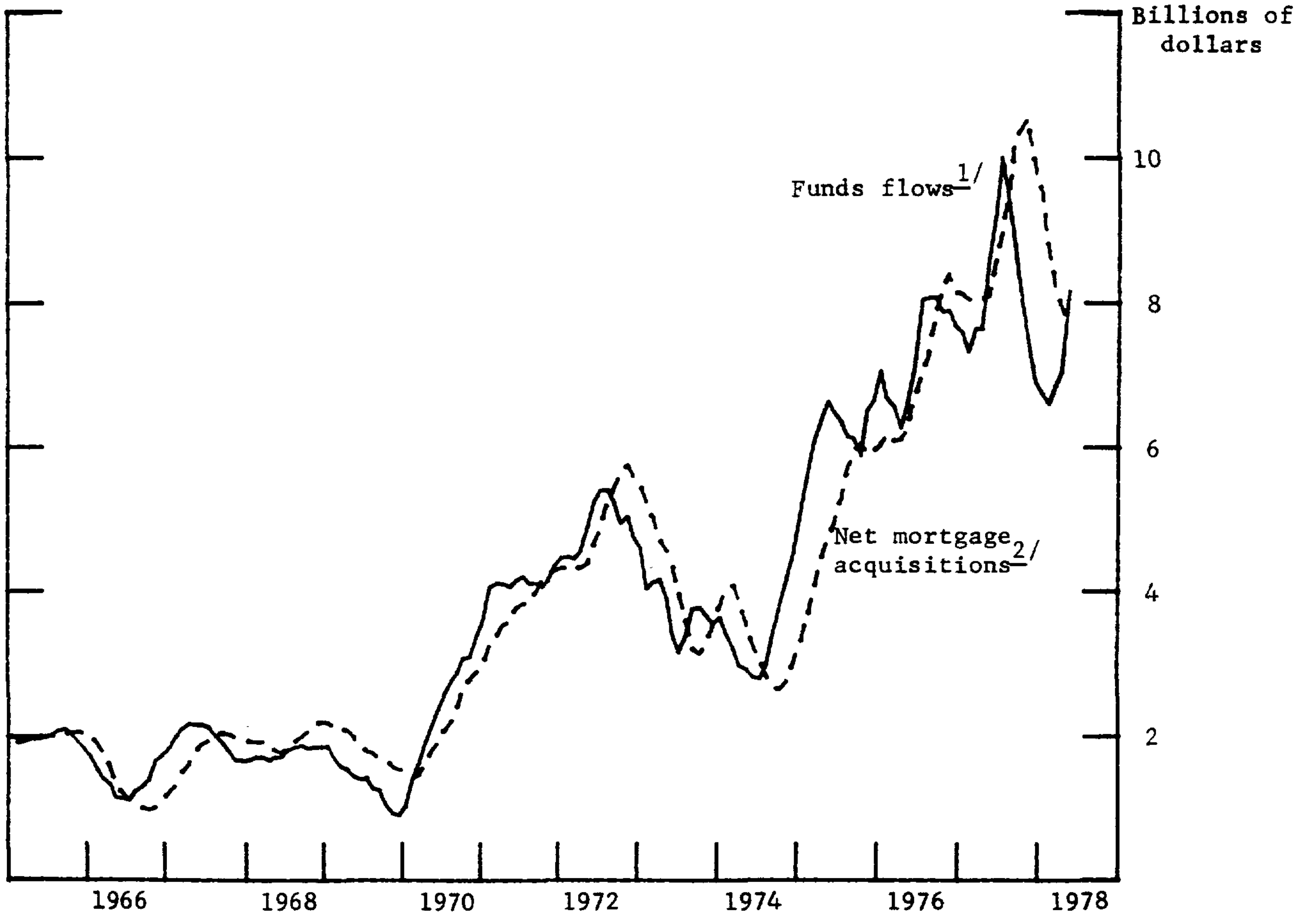
1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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	9.21	885	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--High	717	363	10.21	1011	605	10.02	9.20
Low	75	48	9.28	130	80	9.13	8.43
1978--Aug 7							
14	74	48	10.15	130	80	9.82	8.89
21							9.00
28	150	81	10.07	369	197	9.80	9.01
Sep 5	199	126	10.01	351	155	9.78	8.92
11							8.89

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 prepyment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids required.
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.

FUNDS FLOW AND MORTGAGE LENDING AT
SAVINGS AND LOAN ASSOCIATIONS
(3-month moving average, seasonally adjusted)



1/ Net change in deposits plus mortgage repayments.
2/ Mortgage originations plus purchases less sales.

available funds in home mortgages. Mortgages have continued to account for sizable shares of lending by commercial and mutual savings banks, and some life insurance companies reportedly have increased their acquisitions of home loans.

Consumer Finance

Consumer instalment credit increased during July at a 17 per cent annual rate, somewhat below the unusually strong advance during the second quarter. The slower growth rate, relative to the second quarter, reflected declining total credit extensions while credit liquidations expanded slightly. Weekly reporting bank data and retail sales figures suggest only a small pick-up in consumer credit growth during August.

There have been a few signs recently that households may be experiencing greater difficulty in meeting expanded debt repayment obligations. The percentage of delinquent new and used automobile contracts at finance companies has risen fairly steadily since early 1976, although it remains substantially below previous highs. The number of personal bankruptcies filed during the second quarter rose 9 per cent, slightly exceeding the 1977 quarterly average level. Between February and May, average delinquency rates at leading retail firms increased relative to year-earlier levels for the first time in more than two years, but the increases were modest. On the other hand, a sizable first quarter gain in the more inclusive delinquency

CONSUMER INSTALMENT CREDIT[1/]

	1975	1976	1977	1978 Q1	1978 Q2	1978 June	1978 July
Total							
Change in outstandings							
Billions of dollars	7.4	20.0	30.8	36.6	45.5	45.5	39.6
Per Cent	4.7	12.3	16.9	17.2	20.4	19.8	16.9
Bank share (per cent)	39.4	53.9	50.8	48.3	51.4	51.7	58.0
Extensions							
Billions of dollars	163.9	192.4	226.0	245.4	268.5	272.2	268.0
Bank share (per cent)	47.2	48.9	49.1	49.1	49.8	50.0	50.7
Liquidations							
Billions of dollars	156.6	172.4	195.3	208.8	223.1	226.7	228.4
Ratio to disposable income	14.4	14.5	15.0	15.0	15.6	15.7	15.8
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.2	15.2	20.2	18.5	18.2
Per cent	6.1	18.3	20.1	19.2	24.4	21.4	20.6
Extensions							
Billions of dollars	51.5	62.8	73.1	77.9	87.5	86.9	85.9

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

rate on consumer loans at commercial banks--the major source of consumer financing--was largely reversed in the second quarter. Delinquency experience on mortgage credit, which is by far the largest component of household debt, remained essentially unchanged as measured by the proportion of mortgage loans past due 60 days or more.

RESTRICTED

September 13, 1978

U.S. International Transactions

(in million of dollars; receipts, or increase in liabilities, +)

		1976	1977		1978				
		Year	Year	Q4	Q1	Q2	May	June	July
1.	Trade balance 1/	-9,353	-31,059	-10,170	-11,201	-7,835	-2,702	-1,980	-3,448
2.	Merchandise exports	114,694	120,585	29,457	30,664	35,160	11,569	12,157	11,644
3.	Merchandise imports	-124,047	-151,644	-39,627	-41,865	-42,995	-14,271	-14,137	-15,092
4.	Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-9,935	-3,907	-5,142	-6,031	3,617	-2,342	448	-198
	Through interbank transactions with								
5.	a) Own offices in foreign countries	-6,282	-2,717	-5,545	-3,346	4/	-4,162	5,002	-3,210
6.	b) Unaffiliated banking offices in foreign countries	-3,220	-2,203	-147	-2,369	4/	1,262	-3,347	3,219
	Through nonbank transactions								
7.	a) Claims on nonbanks in foreign countries (increase, -)	-3,142	-423	-487	-180	4/	-144	-1,329	-573
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	2,709	1,436	1,037	-136	4/	702	122	366
9.	Private securities transactions, net	-4,697	-2,021	-242	406	889	911	-9	-1,748
10.	Foreign net purchases of U.S. corp. bonds	397	1,549	223	133	186	23	176	115
11.	Foreign net purchases of U.S. corp. stocks	853	1,385	580	341	1,018	347	54	-50
12.	Foreign net purchases of U.S. Treasury securities	2,783	569	-297	881	796	593	468	-1,546
13.	U.S. net purchases (-) of foreign securities	-8,730	-5,524	-748	-949	-1,111	-52	-707	-267
14.	Change in foreign official reserve assets in U.S. (increase +)	13,091	35,406	15,152	14,899	-5,568	-1,707	-293	3,442
	By Area								
15.	G-10 countries and Switzerland	3,922	28,471	14,201	12,094	-2,967	-542	1,058	2,530
16.	OPEC	6,802	5,989	757	1,354	-2,584	-1,498	-726	229
17.	All other countries	2,367	946	194	1,451	-17	333	-625	683
	By Type								
18.	U.S. Treasury securities	9,315	30,218	12,900	12,964	-5,589	-1,819	-322	2,457
19.	Other 2/	3,776	5,188	2,252	1,935	21	112	29	985
20.	Change in U.S. reserve assets (increase -)	-2,532	-237	-2	246	328	-124	102	32
21.	All other transactions and statistical discrepancy	13,426	1,818	404	1,681	8,569	5,964	1,732	1,920
MEMO:									
	Current account 3/	4,339	-15,221	-6,934	-6,954				

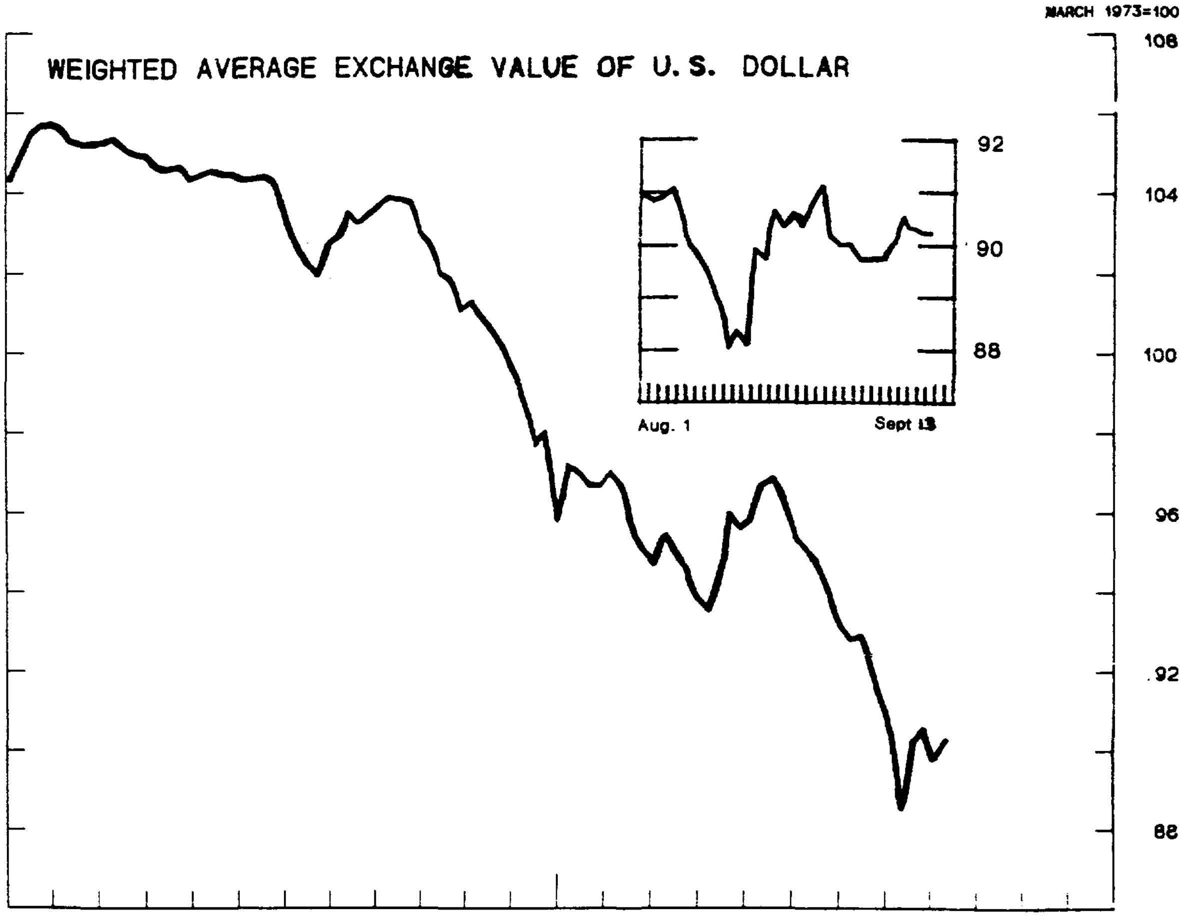
1/ International accounts basis, seasonally adjusted.
2/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.
3/ Seasonally adjusted.
4/ Data not shown separately because of break in series.

IV - 3 - 1

RESTRICTED

Foreign exchange markets. In the five weeks since the last green book exchange rates fluctuated over a very wide range. At the beginning of the period the dollar was under heavy selling pressure and by mid-August the average exchange value of the dollar had fallen about 9 per cent below its value in late May. This decline was sharply reversed by President Carter's statement of concern over the dollar's fall on August 16. Subsequent announcements of an increase in the Federal Reserve's discount rate and stepped-up Treasury gold sales gave added impetus to the dollar's recovery and by August 29 the average exchange value of the dollar had risen about 3-1/2 per cent from its mid-August low point. However, the dollar's recovery was abruptly halted by the announcement of a substantial increase in the U.S. trade deficit for July. In reaction to this announcement the dollar's average exchange value fell back by nearly 1-1/2 per cent. So far in September exchange rate movements have shown little trend with rates fluctuating erratically. The current volatility of exchange rates appears to reflect market uncertainty over possible additional U.S. policy measures to stabilize the dollar, U.S. energy policy--particularly the fate of the natural gas bill--and future trends in U.S. inflation and payments deficits.

Despite the wide range over which exchange rates fluctuated over the past five weeks, the dollar's average exchange value is currently little changed from its level of 5 weeks ago. The weighted-average exchange value of the dollar has increased by about 1/2 per cent over this 5 week period, including appreciations of 2 per cent against the Japanese yen and about 1/2 per cent against the mark and other Europe currencies.


MARCH 1973=100
WEIGHTED AVERAGE EXCHANGE VALUE OF U.S. DOLLAR
108
104
100
96
92
88
92
90
88
Aug. 1
Sept 13

The currency with the greatest net change against the dollar over this period was the Canadian dollar, which depreciated by a further 2-1/2 per cent, dropping to a record low below 86 U.S. cents. The Canadian dollar has experienced periods of heavy selling pressure ever since the election of the Seperatist Party in Quebec in November 1976, and in the nearly two years since then the average exchange value of the Canadian dollar has fallen by over 25 per cent. The most recent decline in the Canadian currency was triggered by the announcement of a worsening of the Canadian trade balance in July. The subsequent announcement of an increase in the Bank of Canada's discount rate from 9 to 9-1/2 per cent had little exchange market impact.

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. At times over the past month both the Belgian franc and Danish krone fell to their lower fluctuation limits against the German mark within the snake,

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On several occasions when the dollar was under downward pressure over the past 5 weeks the Desk intervened, making total sales of $450 million equivalent of marks. These mark sales were financed by equal swap drawings by the System and the Treasury. On August 11 the Desk purchased $200 million equivalent of marks

the System's outstanding swap drawings on the Bundesbank stand at $685 million equivalent and the ESF has outstanding mark swap drawings of $309 million equivalent. The System also made additional swap drawings on the Swiss National Bank totaling $60 million equivalent to finance intervention sales of Swiss francs over the past 5 weeks, raising outstanding current drawings of Swiss francs to $82 million equivalent.

The gold price reached a high above $215 at mid-August, fell back as the dollar started to recover on exchange markets, and fell sharply further to below $200 in reaction to the Treasury's announcement of expanded gold auctions. Subsequently, gold has moved back up to around $208, near its level of 5 weeks ago.

U.S. International Transactions. In July, the U.S. merchandise trade deficit was $41 billion at an annual rate, considerably above the rates for June and the second quarter. Private net capital flows for which we have data showed a $600 million outflow (adjusted). Official foreign assets in the United States (excluding OPEC) increased by more than $3 billion in July, but have risen at a slower pace more recently as intervention activity has been reduced.

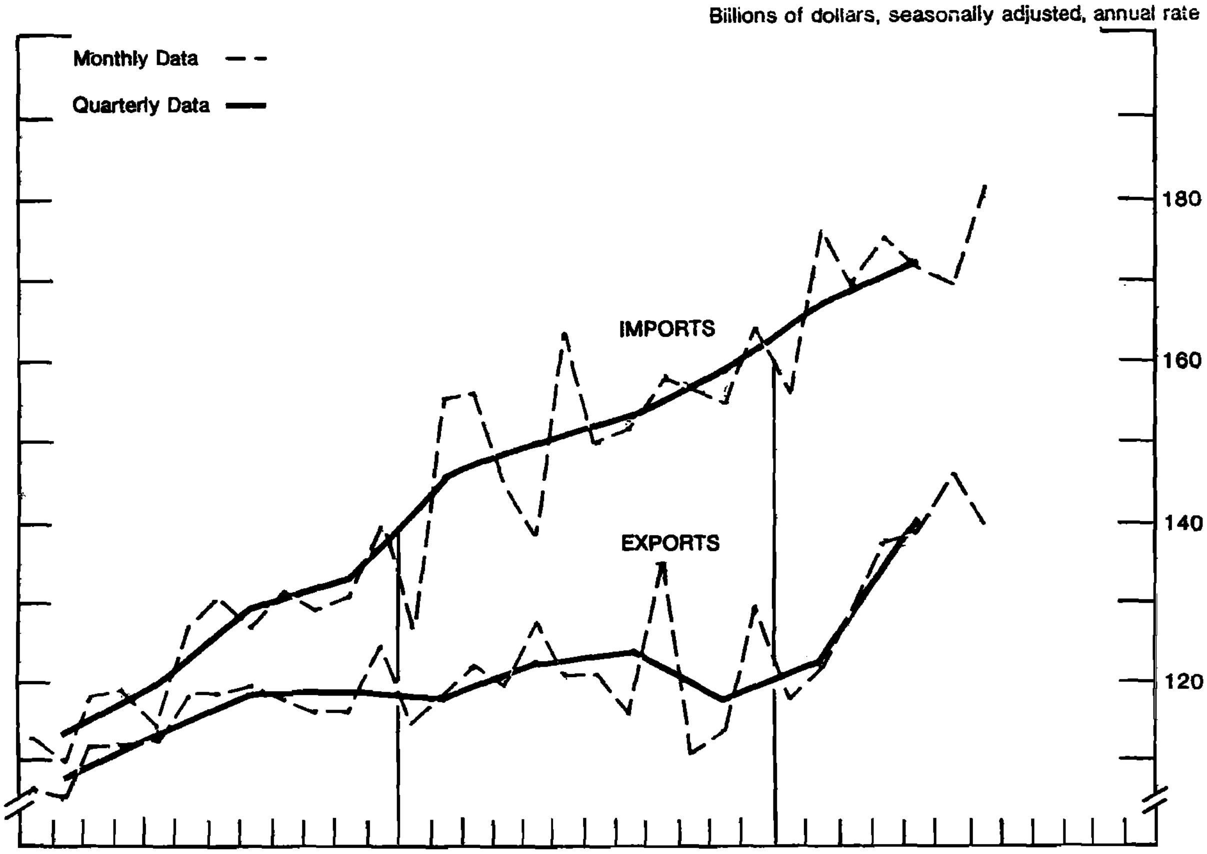
U.S. International Transactions Summary
(in billions of dollars, (-) = outflow)

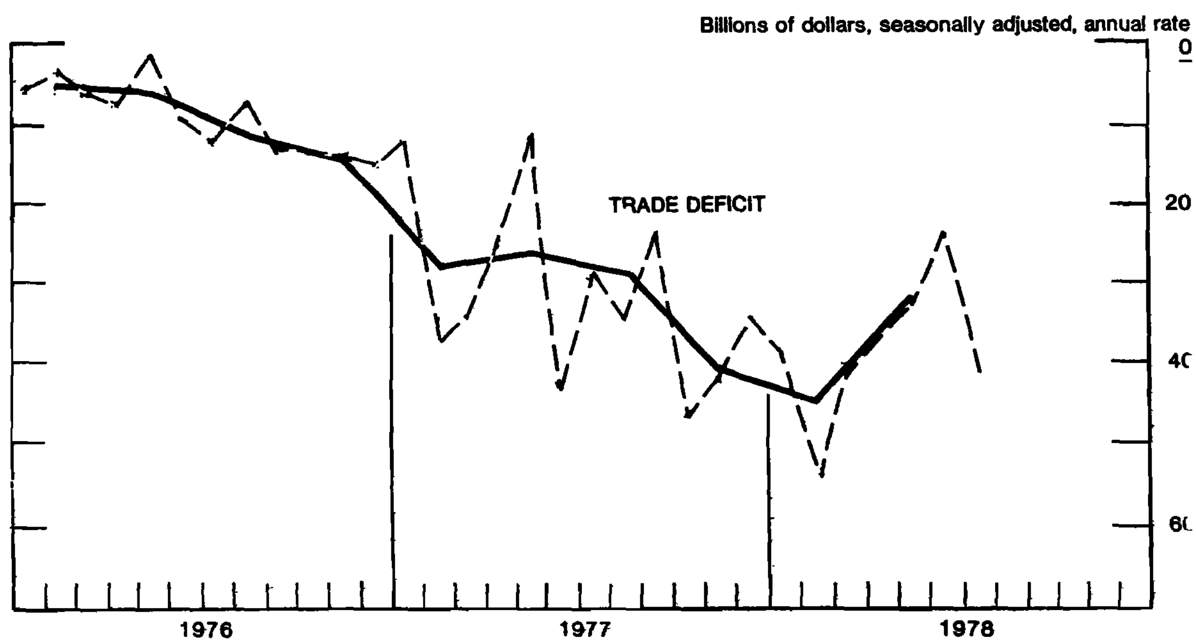
		1977		1978			
		Year	Q-4	Q-1	Q-2	June	July
1.	Trade balance 1/	-31.1	-10.2	-11.2	-7.8	-2.0	-3.4
2.	(annual rate)		(-40.8)	(-44.8)	(-31.3)	(-23.8)	(-41.4)
3.	Private capital trans. adj. 2/	-5.9	-2.9	-7.4	5.0	-.9	-.6
4.	Private capital as rept. net	-5.9	-5.4	-5.6	4.5	.4	-1.9
5.	Reporting bias 3/	--	2.5	-1.8	.5	-1.3	1.3
6.	OPEC net investments in U.S.	6.0	.8	1.4	-2.6	-.7	.2
7.	Other foreign official assets	29.4	14.4	13.5	-3.0	.4	3.2
8.	U.S. reserve assets	-.2	*	.2	.3	.1	*
	All other 4/	1.8	-2.1	3.5	8.1	3.1	.6
9.	Not seasonally adjusted	1.8	-3.2	3.4	7.6	3.5	1.4
10.	Seasonal component 5/	--	1.1	.1	.5	-.4	-.8
	Memorandum:						
11.	GNP net exports of goods and services	-10.9	-4.7	-6.0	-2.6	n.a.	n.a.
12.	Current account balance	-15.2	-6.9	-7.0	n.a.	n.a.	n.a.

1/ Seasonally adjusted.
2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjustment for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.
5/ Equal but opposite in sign to the seasonal component of the trade balance.
*/ Less than $50 million.

U.S. Merchandise Trade

International Accounts Basis





The enlargment of the trade deficit in July, relative to June and the second quarter, was largely accounted for by a surge in the volume of nonpetroleum imports.

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

	1977	1978			
	Year	1Q	2Q	June	July
EXPORTS	120.6	122.7	140.6	145.9	139.7
Agric.	24.4	26.0	32.0	32.8	30.1
Nonagric.	96.2	96.6	108.7	113.0	109.6
IMPORTS	151.7	167.5	172.0	169.6	181.1
Petroleum	45.0	39.8	43.2	41.2	41.3
Nonpetrol.	106.7	127.7	128.8	128.4	139.8
BALANCE	-31.1	-44.8	-31.3	-23.8	-41.4
UNIT VALUES 1972=100					
Exports-Agric.	188.0	182.9	195.1	197.1	189.9
-Nonagric.	176.4	185.3	188.4	193.7	193.7
Imports-Petrol.	500.0	502.6	497.6	497.0	497.2
-Nonpetrol.	179.6	192.8	196.8	197.5	198.8
VOLUME 1972=100					
Exports-Agric.	136.5	149.9	172.7	175.6	166.8
-Nonagric.	136.7	137.9	144.6	146.3	141.9
Imports-Petrol.	193.5	170.3	186.9	178.3	178.3
-Nonpetrol.	116.1	129.5	128.0	127.2	137.6

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

Nonpetroleum imports in July increased sharply from the second-quarter rate, with volume up sharply and prices up moderately. Capital goods imports showed the largest increase in July over the second quarter rate. Both steel and car imports also rose substantially. Most of the increase in steel imports and all of the increase in car imports came in shipments from Western Europe.

Imports of petroleum in July remained at about the rate in the first half of 1978, a rate about 9 per cent below that of 1977. The drop in petroleum imports this year reflects stock draw-down and an increase in U.S. oil production. The average cost of a barrel of oil imported in July was $13.25, compared with $13.24 in the second quarter, and $13.31 in the first quarter.

The value of nonagricultural exports in July rose by 1 per cent over the second-quarter rate. Higher prices of nonagricultural exports more than accounted for the increase, with volumes lower than in the second quarter. Coal exports, affected by a railroad strike that began in early July, fell.

The value of agricultural exports declined in July by 6 per cent from the second-quarter rate. The decline was almost entirely accounted for by a fall in the volume and value of soybean shipments. The fall in export prices for soybeans -- $6.87 per bushel in July compared with $7.38 per bushel in June -- reflected the earlier decline in the spot price for soybeans.

Bank-reported private capital transactions, adjusted for reporting bias, resulted in a net inflow of $1.1 billion in July. The inflow was accounted by a borrowing of funds by U.S. banks from their foreign branches and by a shift in the World Bank's liquid asset portfolio out of U.S. Treasury securities and into money market placements with domestic banks.

Foreign private net sales of U.S. corporate stocks amounted to $50 million in July. By contrast, in the second quarter foreign private investors purchased (net) $1 billion in U.S. corporate stocks.

In July, foreign official assets in the United States (excluding OPEC holdings) increased by more than $3 billion.

. In August, foreign official holdings at the Federal Reserve Bank of New York increased by $1.5 billion.

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OPEC banking and security holdings in the United States increased by $200 million in July, following a $2.6 billion decline in the second quarter. In August, OPEC holdings at the Federal Reserve Bank of New York fell by $700 million.

Foreign Economic Developments. Latest developments present a stronger picture of current and prospective economic activity in the major foreign countries than was the case a month ago. Nevertheless, evidence of strength remains spotty and the outlook continues to be for only a moderate step up in growth rates in the remainder of 1978 and in 1979.

Perhaps the most significant development for this outlook is the proposed supplementary budget in Japan. This budget is designed to raise the growth rate of Japanese GNP in the current fiscal year by 1.3 percentage points, to reach the 7 per cent growth target. To have these effects, however, implementation would have to be quicker than is likely. The German stimulus package proposed in July -- after the Bonn Summit -- is encountering political obstacles and is less likely to be approved in its original form than is the Japanese package; even if approved in full the package is smaller than the Japanese one. Moreover, demand in Germany, unlike in Japan, appears to have been quite weak in the first half of this year, although revised data for industrial production in June and provisional data for July suggest a resurgence of output.

Among the other major countries, activity was relatively strong during the second quarter in Canada and the United Kingdom but quite weak in France and Italy.

Differences in the strength of demand in various countries seems to have been reflected to some extent in the pattern of current-account balances. Thus, the weakness of demand in Italy and France helps to explain the continuing and surprising strength of their external accounts. Conversely, the strong domestic demand in Canada and Britain in the second quarter may account in part for the unexpected weakness of their trade accounts. In Germany and Japan, despite relatively strong growth of import volume -- reflecting in part the first effects of exchange-rate appreciation -- surpluses have increased as their terms of trade have improved. (See the discussion of trade volumes, below.)

Inflation rates in the major foreign countries generally remain below the rates experienced prior to the end of last year. Consumer prices actually fell in the latest month in Germany and Japan, but in some other countries -- and in the six major foreign countries combined -- inflation rates in the second quarter began to edge higher again.

Notes on individual countries. At the beginning of September, the Japanese Cabinet approved a 2.5 trillion yen supplementary budget program (about $13 billion equivalent) that is intended to raise real GNP by 1.3 per cent in the fiscal year ending March 1979. (The new program is expected to be presented to the Diet for approval in mid-September.) Slightly over half of the new expenditures will be for national public works and housing loans. Japanese authorities now forecast that the new package will allow them to meet the official target of 7 per cent real GNP growth in the current fiscal year.

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period, seasonally adjusted)

		1975	1976	1977	1977 Q3	1977 Q4	1978 Q1	1978 Q2	1978 Mar.	1978 Apr.	1978 May	1978 June	1978 July
Canada:	GNP	1.3	5.5	2.7	0.3	1.5	0.7	1.1	*	*	*	*	*
	IP	-5.4	5.1	4.0	0.7	1.4	0.6	1.2	0.5	0.5	-0.7	0.5	n.a.
France:	GDP	-0.5	5.8	2.0	0.4	0.5	1.8	n.a.	*	*	*	*	*
	IP	-8.9	9.8	1.5	-0.5	-0.8	2.7	0.8	2.4	1.6	-3.1	-0.8	n.a.
Germany:	GNP	-2.5	5.7	2.4	0.0	1.4	0.1	n.a.	*	*	*	*	*
	IP	-5.5	7.7	3.1	0.3	1.1	-0.3	-0.6	-0.9	0.9	-0.9	2.6	3.4
Italy:	GDP	-3.5	5.7	1.7	-0.5	-0.1	2.0	n.a.	*	*	*	*	*
	IP	-9.2	12.9	1.1	-0.8	-2.2	4.7	-1.5	-1.0	-2.4	1.4	-1.3	n.a.
Japan:	GNP	1.5	6.3	5.2	0.1	1.5	2.5	1.1	*	*	*	*	*
	IP	-11.1	11.1	4.2	-0.1	1.5	2.9	1.7	2.1	0.1	0.3	0.0	0.3
United Kingdom:	GNP	-2.0	2.3	1.0	0.2	0.1	0.8	n.a.	*	*	*	*	*
	IP	-4.9	0.5	0.4	1.0	-0.6	1.0	0.8	-0.2	1.8	-2.0	0.9	n.a.
United States:	GNP	-1.3	5.7	4.9	1.4	0.8	0.0	1.9	*	*	*	*	*
	IP	-8.9	10.1	5.6	1.1	0.6	0.2	3.1	1.2	1.6	0.5	0.5	0.5

*GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

	1975	1976	1977	1977 Q3	1977 Q4	1978 Q1	1978 Q2	Latest 3 Months from: Previous 3 Months (at Ann. Rate)	Latest 3 Months from: Year Ago	Latest Month
Canada: CPI	10.8	7.5	8.0	2.2	2.2	1.8	2.4	12.2	9.4	August
WPI	6.5	4.3	9.1	0.9	1.1	2.6	2.8	11.7	8.0	June
France: CPI	11.7	9.6	9.5	2.4	1.9	1.6	2.9	12.2	9.3	July
WPI	-5.7	7.4	5.6	-0.9	0.0	1.2	2.0	7.5	4.0	July
Germany: CPI	5.9	4.6	3.9	0.2	0.2	1.3	0.9	1.5	2.4	August
WPI	3.4	5.8	1.8	-1.8	-0.9	1.0	0.3	1.1	0.1	July
Italy: CPI	16.9	16.8	18.4	2.5	3.3	2.6	3.0	9.8	11.6	August
WPI	8.5	22.9	17.4	1.5	2.0	2.1	2.3	8.8	8.6	July
Japan: CPI	12.1	9.7	8.3	0.3	0.8	0.9	2.0	1.0	4.5	August
WPI	3.0	5.0	1.9	-0.5	-0.7	-0.5	-0.3	-4.8	-3.6	August
United Kingdom: CPI	24.2	16.6	15.8	1.6	1.5	1.7	2.7	10.1	7.8	July
WPI	24.1	16.4	19.2	3.3	1.6	2.5	2.0	8.5	8.3	August
United States: CPI	9.1	5.7	6.5	1.5	1.1	1.7	2.6	11.4	7.7	July
WPI	9.2	4.6	6.1	0.2	1.1	2.4	3.0	8.2	8.1	August

Trade and Current-Account Balances of Major Industrial Countries[a/]
(billions of U.S. dollars; seasonally adjusted)

		1975	1976	1977	1977 Q1	1977 Q2	1977 Q3	1977 Q4	1978 Q1	1978 Q2	1978 Apr.	1978 May	1978 June	1978 July
Canada:	Trade	-0.6	1.2	2.2	0.8	0.2	0.4	0.7	1.3	0.5	0.2	0.3	0.0	-0.1
	Current Account	-4.7	-3.9	-3.9	-0.8	-1.2	-1.2	-0.7	-0.5	-1.2	*	*	*	*
France:	Trade	1.5	-4.2	-2.2	-1.1	-0.7	-0.5	0.1	-0.1	0.3	0.2	0.0	0.1	0.2
	Current Account	0.0	-6.0	-3.3	-1.3	-0.8	-0.8	-0.3	0.2	n.a.	*	*	*	*
Germany:	Trade	15.3	13.5	16.5	3.7	4.2	3.7	4.8	4.3	5.0	1.6	1.4	2.0	n.a.
	Current Account[b/]	4.1	3.9	3.9	1.0	1.1	-2.0	3.8	1.6	2.2	0.8	0.4	1.1	0.8
Italy:	Trade	-3.4	-6.5	-2.5	-1.3	-0.8	-0.2	-0.2	-0.1	0.5	0.3	-0.1	0.4	n.a.
	Current Account[b/]	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.	n.a.	n.a.	*	*	*	*
Japan:	Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	7.4	6.9	1.8	2.1	3.0	2.1
	Current Account	-0.7	3.7	11.0	2.3	2.8	2.7	3.1	5.5	5.1	1.3	1.4	2.3	n.a.
United Kingdom:	Trade	-7.1	-6.3	-2.9	-1.7	-1.2	-0.1	0.1	-1.1	-0.2	0.3	-0.4	-0.2	-0.3
	Current Account	-3.7	-2.0	0.3	-0.8	-0.6	0.9	0.9	-0.6	0.4	0.6	-0.2	0.0	n.a.
United States:	Trade	9.0	-9.3	-31.1	-7.0	-6.6	-7.3	-10.2	-11.2	-7.8	-3.2	-2.7	-2.0	-3.4
	Current Account	18.4	4.3	-15.2	-2.7	-2.7	-2.9	-6.9	-7.0	-4.1	*	*	*	*

a/ The current account includes goods, services, and private and official transfers.
b/ Not seasonally adjusted.
* Comparable monthly current-account data are not published.

The forecast relies on additional increases in private investment to offset expected declines in net exports. However, private fixed investment increased by only 1-1/2 per cent in the April-June quarter and has shown no sign of a resurgence on the scale required by the official forecast. Moreover, reports have indicated that a relatively small issue of bonds (about ¥300 billion) is expected in connection with the program and that the government may cut back on other current-account expenditures. Recourse to the latter means of "financing" the new package would, of course, reduce its net impact on final demand.

In Germany, provisional figures released last week show that industrial production rose 3-1/2 per cent from June to July (seasonally adjusted, monthly rate), with output of capital goods being especially strong. At the same time, the figure for June was revised upward from 1 per cent to 2-1/2 per cent. Given the volatility of this series, these new data are difficult to interpret. There have been few other signs that the German economy is breaking out of the pattern of slow growth. The only sector showing strong recovery was construction, which grew by 5.5 per cent in 1978Q2 after 21 months of stagnation. This was offset by the continued slump in fixed investment and the indifferent performance of private and public consumption.

Real GNP in Canada increased in real terms by over 1 per cent (seasonally adjusted) during the second quarter of 1978. Final domestic demand -- which has been sluggish since early 1977 -- rose by almost 2 per cent. The advance in domestic demand was the result of a strong resurgence in gross fixed capital formation and continued moderate growth of personal expenditure and government current expenditure on goods and services. Contributing to the 5 per cent rise in gross fixed capital formation was a 10 per cent rise in machinery and equipment investment and a 5 per cent rise in residential construction. Recent surveys continue to indicate an improvement in businessmen's attitude.

At the end of August, Canadian Finance Minister Chretien announced a series of economic proposals that include a cut in family allowances, offset by a new tax credit for low- and middle-income earners; a cut in unemployment insurance benefits coupled with a job creation program; and the deregulation of natural gas prices.

Effective September 12, the Bank of Canada raised its discount rate from 9.0 to 9.5 per cent. At the same time, the Bank announced that its target for the trend rate of growth of M_1 has been lowered from 7-11 to 6-10 per cent, based on a new base of June 1978. In the 12 months to June 1978 M_1 rose 8-1/2 per cent.

There has been a pickup in economic activity in the United Kingdom in recent months. Private consumer spending has been particularly strong, rising almost 2-1/2 per cent (seasonally adjusted, not annual rate) from 1977Q4 to 1978Q2. Fixed investment in manufacturing industries increased by less than 1 per cent. There was a substantial increase in inventories during the first two quarters of 1978. (The second quarter data on consumption and investment are provisional.)

The economic recovery in Italy appears to have flattened out in the second quarter as evidenced by a drop in industrial production. The government is in the process of preparing a three-year economic program which has as one of its objectives a reduction in the public-sector-deficit's share of GDP and which would necessitate significant spending cuts and tax increases. For 1978, however, the extended-public-sector deficit will far outrun the original government target because of the failure to adopt the necessary implementing measures. The sluggish recovery has contributed to a very strong external position and in the first six months the trade balance (customs basis, seasonally adjusted) recorded a surplus of $440 million in contrast to a deficit of $2.5 billion for the full year 1977; heavy tourist receipts have also contributed to upward pressure on the lira. The Bank of Italy has accumulated a substantial amount of foreign exchange, a part of which has been used to repay about $4 billion of official external debt. On September 1 the Bank of Italy announced a reduction in the basic discount rate from 11.5 to 10.5 per cent. The move appears to reflect the substantial liquidity presently enjoyed by the banking system.

In France, the government's post-election policy of maintaining the real wages of low-income earners -- by raising minimum wages in line with price increases -- has resulted in large increases in nominal wages. The index of hourly wages rose 5 per cent in the second quarter of 1978, yielding a year-over-year increase of almost 14 per cent.

In Denmark, the new coalition government adopted a variety of measures designed to moderate the rising fiscal deficit and to preserve the recent reduction in the current-account deficit. Meanwhile, a scheme to stimulate private savings is to be introduced this autumn in Sweden. Indications are that wage and salary earners will be allowed to deposit annually up to about $1,000 in a special account. Twenty per cent of these savings, as well as interest earned on the entire account, will be tax deductible.

In Switzerland, Ebauches Electroniques, the major manufacturer of electronic watch components, closed for one week in August and will be running on a 4 day week for the indefinite future. This company was thought to be the cutting edge of the Swiss competition against growing exports of American and Japanese watches. Forty per cent of Swiss export companies foresee a decline in export orders, according to a recent Union Bank of Switzerland survey; shares of Swiss industrial corporations are down 5 per cent since the end of 1977 and continue weak against the general market.

Trade volume. The rates of growth of import volumes over the latest four quarters in Canada, France, Italy, and the United Kingdom -- where weighted-average exchange rates have depreciated -- have slackened relative to the previous four quarters and to the growth rate of export volumes in each country (see table). There was a spurt in Canadian imports in the second quarter of this year due to a sharp increase in real domestic demand. Because British trade data have fluctuated widely in recent months, it is difficult to interpret the large increase in imports in the first quarter. However, to some extent it may reflect speculative inventory building during a period when sterling was relatively strong and expected to decline.

Trade Volume in Major Industrial Countries

	Percentage change from previous quarter (s.a.a.r.)						Percentage change from the same quarter, previous year	
	1977				1978			
	Q1	Q2	Q3	Q4	Q1	Q2	77QII / 76QII	78QII / 77QII
Canada								
Export Volume	11.5	-2.2	-1.3	4.2	5.3	0.0	8.0	8.3
Import Volume	2.2	1.5	-4.2	-1.1	-1.5	9.8	3.6	2.8
France								
Export Volume	1.0	0.4	3.2	2.5	n.a.	n.a.	3.9	7.3 1/
Import Volume	-1.5	-4.2	3.5	1.4	n.a.	n.a.	0.8	-0.9 1/
Germany								
Export Volume	2.0	1.5	0.8	2.8	-1.2	2.8	6.1	5.2
Import Volume	1.2	-1.2	3.0	2.8	1.8	1.8	3.9	9.4
Italy								
Export Volume	-0.4	3.9	-3.4	8.9	-8.8	n.a.	12.2	-0.8 2/
Import Volume	-12.5	5.2	-3.1	8.2	-18.5	n.a.	4.2	-10.1 2/
Japan								
Export Volume	4.6	0.6	1.2	1.0	4.1	-8.6	8.8	-2.7
Import Volume	2.6	-2.4	-1.4	1.2	3.4	1.9	4.1	5.2
United Kingdom								
Export Volume	1.9	2.0	5.2	-5.0	2.0	1.9	7.4	3.9
Import Volume	1.6	0.7	-3.1	-3.6	11.4	-3.7	3.6	0.2
United States								
Export Volume	-1.7	2.4	1.8	-5.8	1.1	10.8	2.0	7.4
Import Volume	6.1	-0.3	1.4	3.4	1.7	1.1	14.7	7.7

1/ 77QIV / 76QIV

2/ 78QI / 77QI

In contrast to generally weak import volumes elsewhere, in Germany and Japan -- where weighted-average exchange rates have appreciated -- import volumes have increased at faster rates than in the preceding year, and much faster than their exports this year. Strong exports of Japanese steel and other products in anticipation of the imposition of new trade restrictions produced a first quarter 1978 bulge in Japanese export volume that was followed by a steep decline during the second quarter. These events interrupted a history of relatively flat Japanese exports dating back to early 1977.

Only in those countries experiencing the greatest exchange rate appreciation, Germany and Japan, have import volumes increased faster than export volumes. In comparing trade in those two countries it is striking that despite recent periods of relatively low growth of German domestic demand and the greater appreciation of the yen, German imports increased at a faster rate than those of Japan.

In the context of recent exchange rate developments, the surplus trade balances currently shown by both Germany and Japan more strongly reflect recent improvements in their terms of trade rather than increases in the ratio of export volume to import volume.

APPENDIX A*

RECENT INVENTORY DEVELOPMENTS

So far this expansion has been generally free of the sharp buildup in inventory investment that frequently interrupt cycles and sometimes terminate them prematurely. Nevertheless, the longevity of the present expansion period, together with an outlook for moderating growth, makes it difficult to envision activity over the near term without the development of some inventory excesses. The purpose of this appendix is to provide an over-all appraisal of the adequacy of stocks of nonfarm business with an aim toward assessing the possibility of inventory corrections occurring in the very near term. The first section summarizes the behavior of inventories in the current expansion. The second section takes a critical look at apparent inventory positions and trends by examining alternative conceptualizations of the inventory-sales ratio. The next section discusses a few trouble spots that may be masked by movements in aggregate ratios, and a final section draws implications for the near term inventory outlook.

Recent Perspective

Although initially characterized by a relatively deep and lengthy correction, the behavior of aggregate inventories during the current expansion has not been remarkably different from that of prior recovery periods. Following the recession, excess stocks were worked off by the end of 1975, and since then the inventory sales ratio--in real terms--has shown little perceptible movement (Chart 1). Nonetheless, the ratio of real nonfarm inventory investment to GNP as of 1978:QII stood at 0.95 per cent, well above the 0.66 per cent postwar average. For expansions that have been especially durable it is not uncommon for inventories to rise as a share of output; in particular, the current ratio of inventory investment to GNP is only a bit below the corresponding ratio during the 1960's. Furthermore, at this point in the current expansion, there has been less cumulative building of real nonfarm inventories than that which occurred throughout the comparable period in the 60's.

In recent months--until June, manufacturing and trade book value inventory investment has been unusually strong. Boosted in large part by accelerating inflation, inventory investment in the first

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* Prepared by Laura S. Rubin, Economist, National Income Section, Division of Research and Statistics.

quarter was the largest since the end of 1974, paced in part by record accumulation at wholesale trade establishments. The second quarter pace continued high, with gains about equally divided between manufacturing and trade. In June, however, there was a distinct slowing of accumulation at retail trade establishments. In July, the manufacturing sector increase was the smallest in six months and wholesale stocks declined for the first time in a year.

Inventory-Sales Ratios

The inventory-sales ratio has behaved in a fairly coincident fashion over the business cycle. Historically, it has increased during recessions and later declined when businesses worked off overhangs as sales picked up. Sharp movements in the ratio are explained more by variations in sales than by swings in stocks. While the book value ratio is probably the most frequently used indicator of stock adequacy, movements in this ratio can be and have been distorted in an environment of persistent inflation.

The Book Value Ratio. In June the book value ratio of total manufacturing and trade inventories to sales was near its Korean War low; as Chart 2 shows, it has been trending downward fairly steadily since its recession peak in 1975. By sector, the book value ratio is extremely low in manufacturing--particularly in the machinery, transportation equipment, textile, and tobacco industries. However, inventories held by wholesalers and retailers appear to be generally in line with their sales, although some build-ups have emerged at retailers of apparel, furniture and appliances and at general merchandise stores.

Even though the book value ratios suggest stocks are fairly lean, these ratios may actually be understating the adequacy of current stocks for two reasons: first, inflation affects sales more than it does stocks since the latter reflect a mix of current and historical prices; and second, the type of inventory accounting procedures preferred by firms tends to place an increasing emphasis on valuation of stocks at historical as opposed to current prices.1/ The degree of

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1/ While the value of sales is measured in current prices, the book value of inventories depends on both current and historical are typically below current market prices. Hence, the numerator in the commonly used book value inventory-sales ratio reflects current prices to a lesser extent than the denominator, resulting in a ratio that is biased downward. The bias is further aggravated when increased inflationary pressures lead firms to switch to the LIFO (last-in-first-out) system of accounting; while this accounting method has the effect of reducing firms' profits and taxes, it also increases the proportion of stocks carried at past prices.

bias varies directly with the rate of price inflation and should be allowed for to insure judicious and accurate interpretation of the book value ratio.

The Constant Dollar Ratio. While not flawless, the constant dollar manufacturing and trade inventory-sales ratio2/ is free of the two inflation-induced biases mentioned above. On a constant dollar basis, the inventory-sales ratio for total manufacturing and trade has shown less downward drift since its 1975 recession peak than has its book value counterpart (Chart 1). Furthermore, it has remained fairly stable at about its historical average over the last year and a half. In the manufacturing sector, while the constant dollar ratio was a bit low at the end of the second quarter, it does not suggest the leanness of stocks as indicated by the book value ratio. At the end of 1978-II, the constant dollar ratio for wholesale establishments appears high on a trend-adjusted basis; this contrasts with the book value ratio which appears to be normal. At the retail trade level the constant dollar ratio, like the book value ratio, is approximately at its historical average.

Hence, the aggregate constant dollar ratio suggests that stocks of manufacturers and trade establishments are about normal with respect to sales. This is roughly confirmed by an alternative, partial measure of inventory investment based on physical stock data; this series indicates that real accumulation has been neither unusually high nor low so far this year.3/

2/ Basically the construction of the constant dollar ratio requires the conversion of book value stocks to constant (1972) dollars using special price indexes derived from components of the Producer Price Index, with varying treatments for the LIFO and FIFO accounting schemes. Sales are also deflated by appropriate price indexes. This ratio is published on a quarterly basis--in contrast to the monthly frequency of the book value ratio--and has less industry detail than the book value variant.

3/ This measure is a by-product of the staff's measurement of industrial production. It includes physical stock data on trucks, autos, energy, and factory appliances. Estimates of other inventories are derived from production, import and consumption data for some materials, consumer nondurable goods, work-in-process, and construction products.

Special Factors

Even though aggregate measures of stock adequacy indicate that inventories are generally not out of line, major adjustments are usually triggered by imbalances that arise at the individual industry level. Since the end of last year, there have been a number of industries that have exhibited special problems regarding their inventory position. Some of the imbalances have been subsequently corrected, but in a period of decelerating growth of over-all activity the avoidance of inventory overhangs becomes an even greater challenge for inventory management policies.

The GAF Group. Early this year, inventories of general merchandisers (including department stores) and retailers of apparel, furniture and appliances appeared to be excessive at least as measured in book value terms; inventory-sales ratios in these areas approached their 1974 recession levels.4/ (See Chart 3.) Some of these excess stocks were worked off this spring and the inventory to sales ratio for the GAF group as a whole declined somewhat. However, retail sales at such outlets have edged down in recent months, suggesting that this could be a troublesome area in coming months as well.

The Coal Industry. The winter UMW strike in the coal industry, resulted in a liquidation of coal stocks at all coal burning utilities by about 73 million tons compared to the 10 million ton decline during the comparable four month period of the preceding winter. Although it appeared that substantial anticipatory building occurred before the strike, considerable restocking will still be required for this winter's heating season. At utilities, inventories rose about 33.2 million tons between April and June while the increase for the same period last year was about half as much. These large increases in inventories are viewed primarily as an effort to restock after the long strike and should not be misconstrued as a likely source of potential imbalance.

The Automobile Industry. In the spring auto stocks at dealers climbed to historically high levels. While the pace of sales during those months was strong enough to support this inventory posture, fears were expressed that this surge in demand was transitory, and thus inventories could quickly turn out to be excessive. However, dealer stocks, which peaked in April, have since declined substantially; days supply figures suggest that, on average, dealers now should be fairly comfortable with stocks. Thus it appears that this earlier run-up reflected recognition by producers that the upcoming model changeover period would come earlier and take longer than usual.

4/ Constant dollar detail is not available for this category.

The Food Industry. In the food industry, erratic price movements have tended to mask real relationships This was particularly true this spring when prices for crude foodstuffs and feeds rose as rapidly as 4.7 per cent in a single month. In March the surge of farm prices swelled the book value of total manufacturing and trade investment in food stocks to $18.8 billion at an annual rate, accounting for almost 30 per cent of the total manufacturing and trade book value increase. However, the book value inventory to sales ratio at food industries, the only one available, does not suggest any noticeable excesses (Chart 4). Moreover, while the volatility of food stocks may at times obscure monthly book value changes in total inventory investment, the balance between total business stocks and sales seems to be less affected; this is apparent in the similarity of the movement between the total inventory-sales ratio and that ratio for the total excluding food (Chart 4, lower panel).

Conclusion

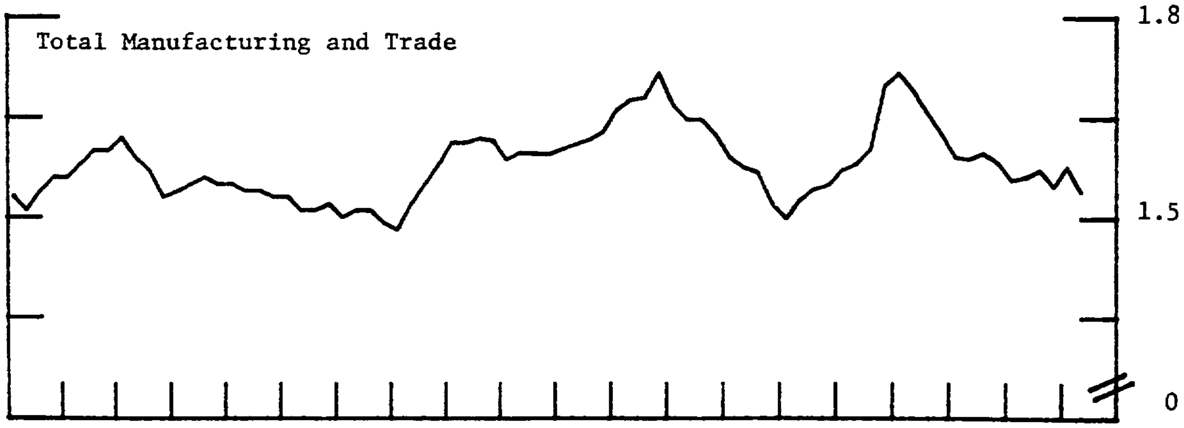
Over-all measures of stock adequacy indicate that stocks are generally in the lean to normal range. In fact, the durability of the present cycle may in part reflect the persistence of the conservative inventory policy that businessmen, with the 1974 experience fresh in their minds, have been able to maintain. While special problems have emerged in a number of industries in recent months, troublesome areas are confined largely to retailers of general merchandise, apparel, and furniture and appliances, whose retail sales have declined in each of the last three months.

Near term prospects for a continued cautious inventory posture seem to be indicated by the latest data. There was a sizable slowing in the book value rate of total trade inventory investment for June; these stocks rose at an annual rate of only $9.9 billion--about one-third of the average pace over the first five months of the year. In July, the book value increase in manufacturing inventories slowed considerably from the second quarter average, and wholesale trade inventories declined.

Chart 1

INVENTORY TO SALES RATIO

(1972 dollars)



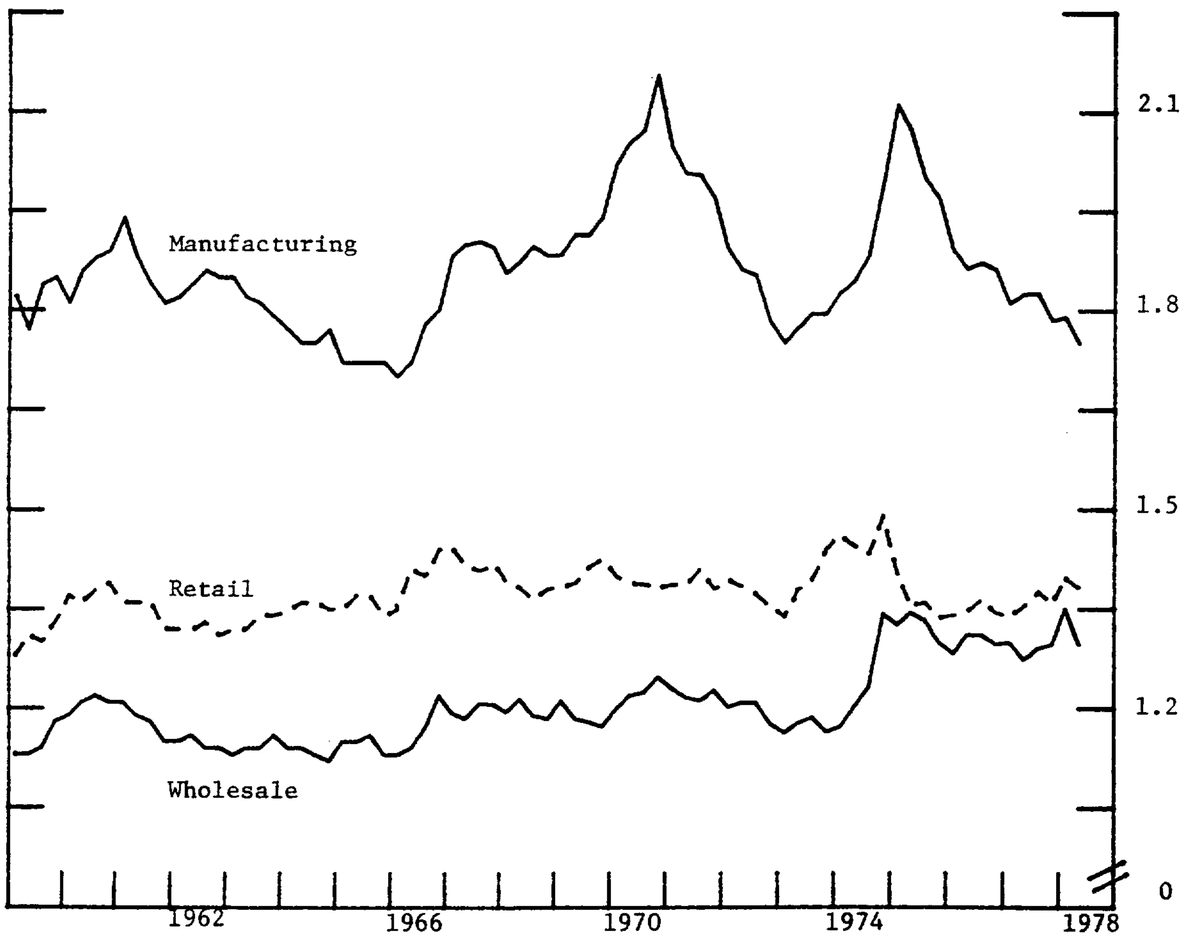


Chart 2

INVENTORY TO SALES RATIO

(Book value basis)

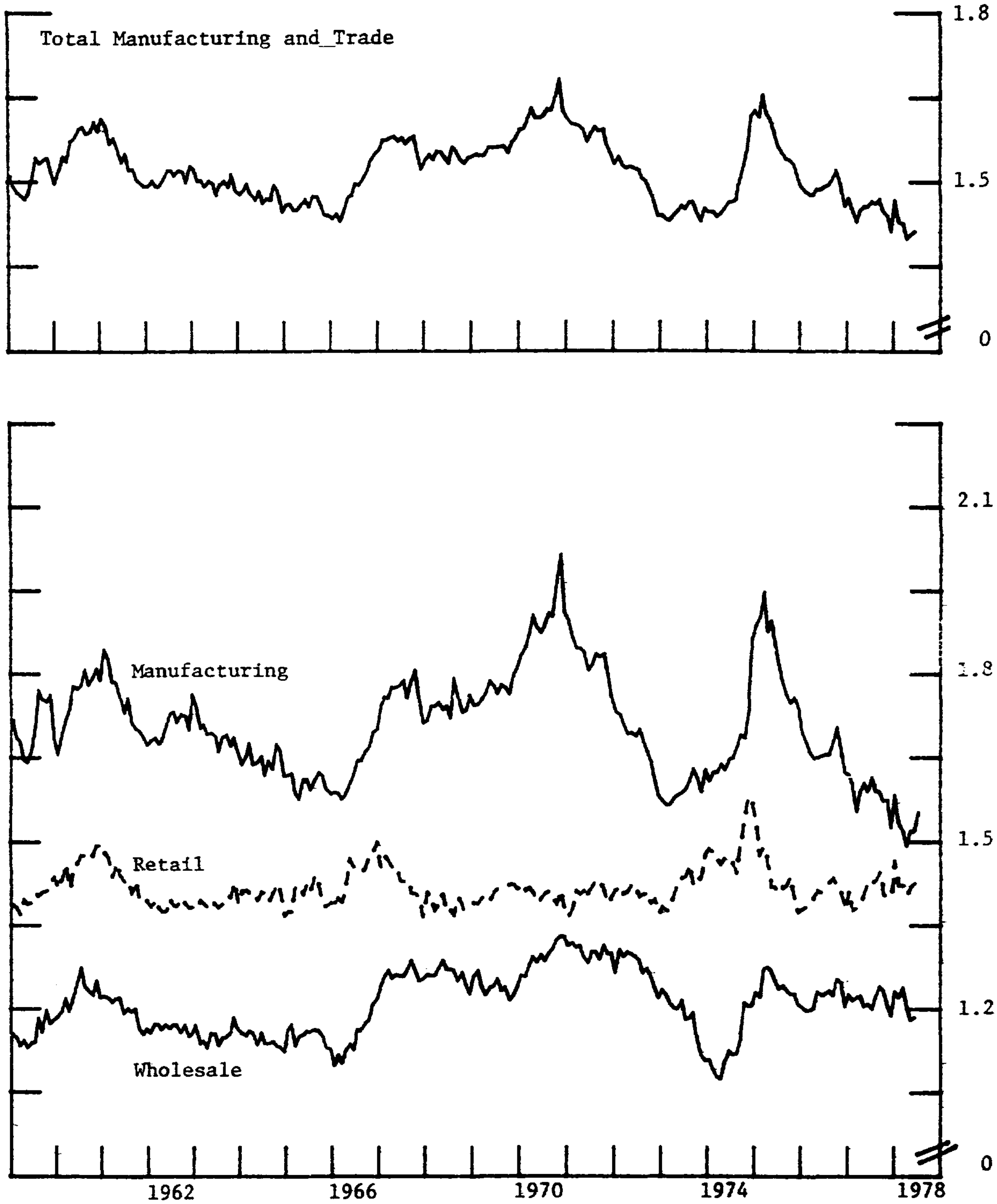


Chart 3

INVENTORY TO SALES RATIO

(Book value basis)

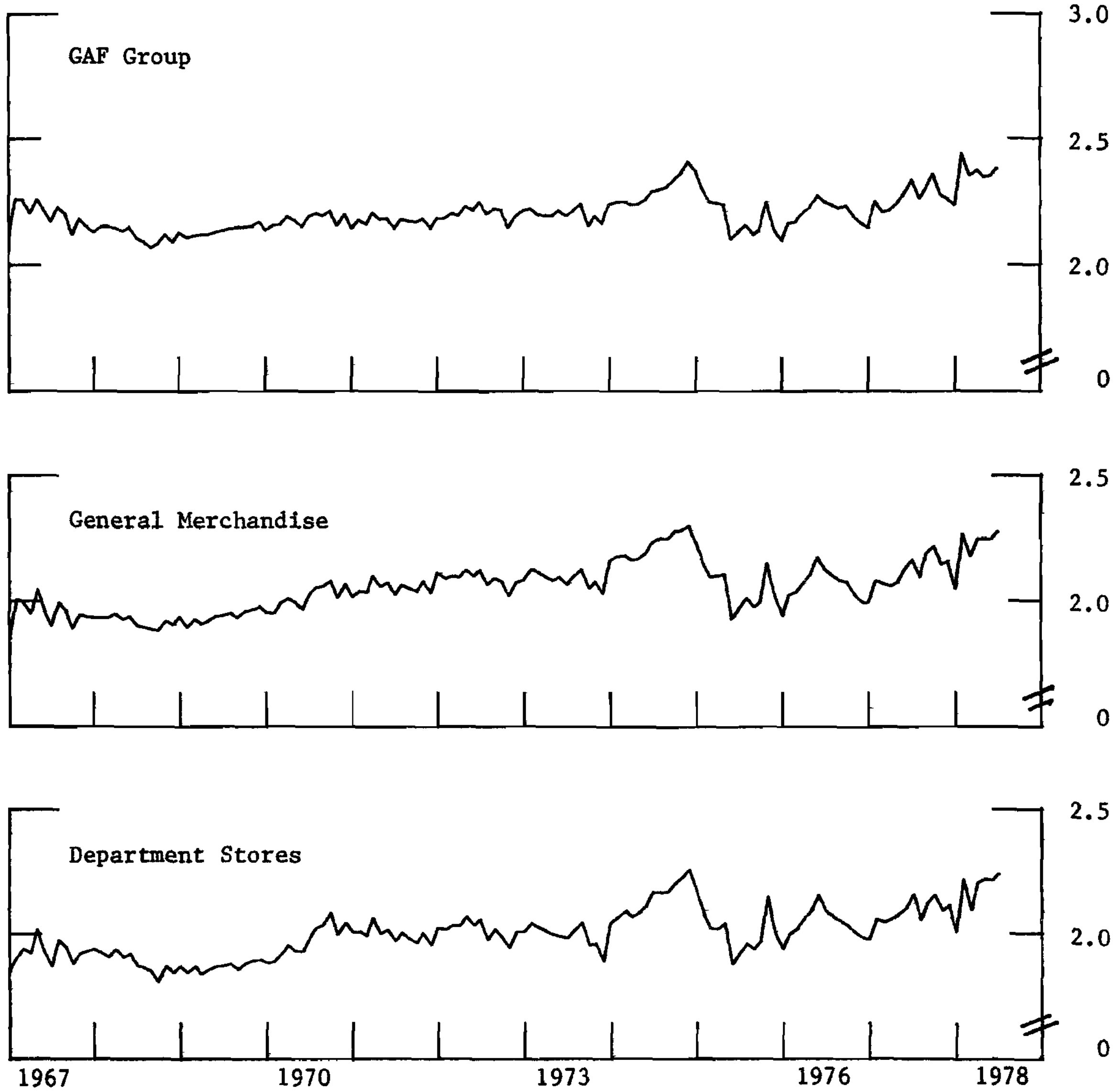
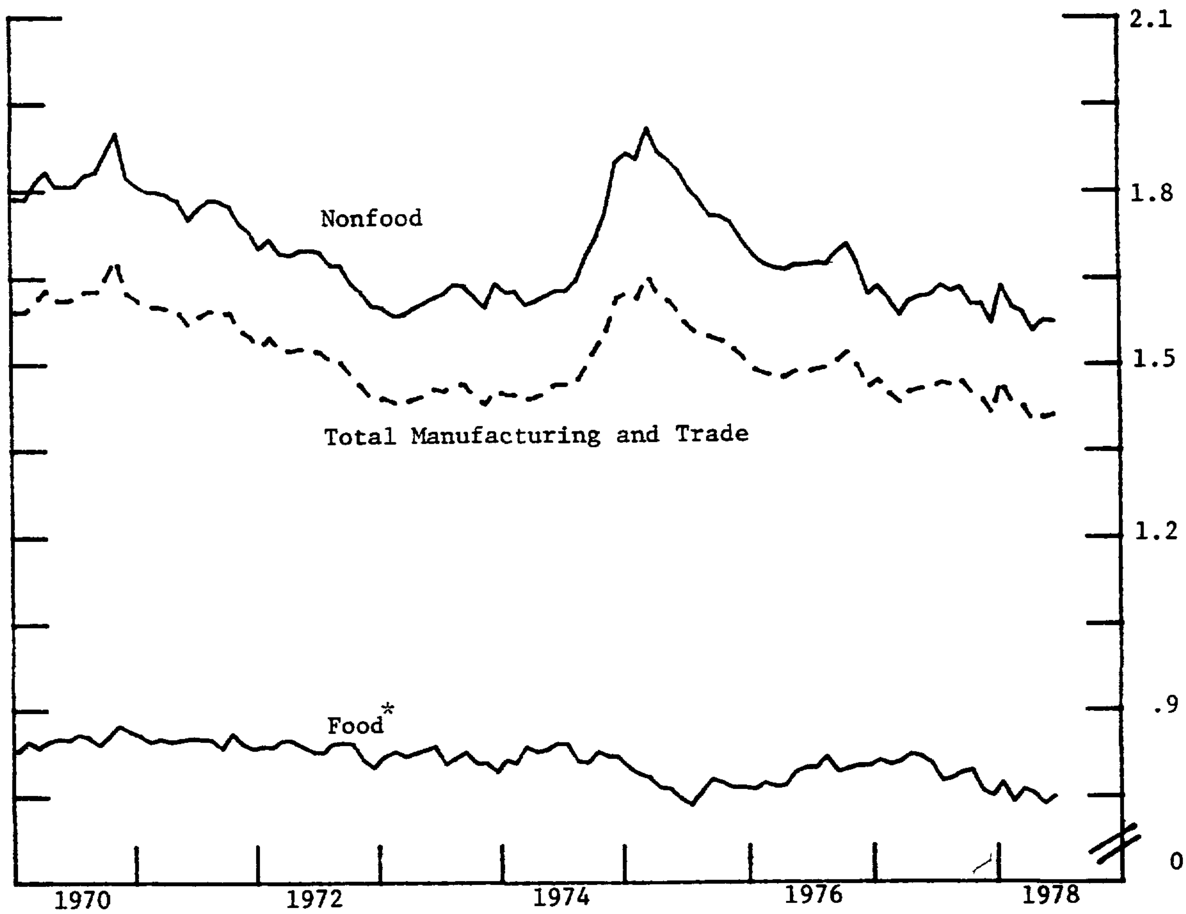


Chart 4

INVENTORY TO SALES RATIO
Food and Nonfood Industries
(Book value basis)



*Includes all manufacturing and trade food groups.

APPENDIX B

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES*

About one-half of the 121 senior loan officers responding to the mid-August survey reported that business loan demand had strengthened over the previous three months--a substantial decline from the 70 to 75 per cent of respondents who reported stronger loan demand at the time of the May survey and anticipated further strengthening from May to August. About half the panel also expected stronger loan demand in the September-November period. Reports of rapid loan growth were more prevalent at large banks (with assets over $5 billion), and respondents at most of the large banks were anticipating additional loan strength in coming months. As in the May survey, few respondents reported that the demand for business loans had weakened in August compared to three months earlier.

Between the May and August surveys, the prevailing prime rate rose in three steps from 8-1/4 to 9 per cent. In this environment of rising interest rates, many banks, particularly medium-size banks (with assets less than $5 billion), continued to move toward firmer terms of credit in August. Medium-size banks have acquired loan assets relatively more rapidly than large banks in the current expansion, and appear generally less liquid.

Standards of creditworthiness at both large and medium-size respondent banks, which had already become more stringent as of May, were tightened further by August, particularly as applied to non-prime borrowers. A small number of banks, most of them large, reported easier rate policies. Although very few banks changed their loan procedures for established customers, about a quarter of the reporting banks were less inclined to approve loans from non-local service area customers in August. One-fifth of the medium-size banks reported using firmer criteria in August when reviewing the loan applications of new customers, about unchanged from the May survey. In contrast, only 5 per cent of large banks reported firming criteria for this category, down from 10 per cent in May.

About one-quarter of the respondent medium-size banks reporting firming their compensating balance requirements for commercial and industrial loans, about unchanged from the May survey. The number of large banks reporting firming compensating balances

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* Prepared by Thomas F. Brady, Economist, Banking Section, Division of Research and Statistics.

fell slightly from the May to August surveys, while the number easing rose. The large banks also showed a tendency to report more willingness to make fixed-rate term loans than in May.

The number of August respondents indicating less willingness to make loans of most types surveyed exceeded noticeably the number indicating more willingness. This represents a further move toward restriction compared to the May report but reflected changes in the behavior of medium-size banks. The number of large banks reporting an increased willingness to make loans actually rose for most loan categories from the May report. A major exception is loans secured by single family residences, where the position of large banks has moved very noticeably toward restriction.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.
(STATUS OF POLICY ON AUGUST 15, 1978 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

L O A N   D E M A N D

STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL BANKS ANSWERING
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
1. COMPARED TO THREE MONTHS EARLIER	4	3.4	57	47.2	53	43.9	7	5.8	0	0.0	121
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	2	1.7	59	48.8	59	48.8	1	0.9	0	0.0	121

I N T E R E S T   R A T E   P O L I C Y

STANDARDS OF CREDIT WORTHINESS:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
3. TO QUALIFY FOR PRIME RATE	0	0.0	12	10.0	106	88.4	2	1.7	0	0.0	120
4. TO QUALIFY FOR SPREAD ABOVE PRIME	0	0.0	28	23.2	86	72.8	5	4.2	0	0.0	121

WILLINGNESS TO MAKE FIXED RATE LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
5. SHORT-TERM (UNDER ONE YEAR)	0	0.0	6	5.0	99	81.9	13	10.8	3	2.5	121
6. LONG-TERM (ONE YEAR OR LONGER)	0	0.0	8	6.7	76	62.9	26	21.5	11	9.1	121

C R E D I T   A V A I L A B I L I T Y   A N D   N O N P R I C E   T E R M S

REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
7. ESTABLISHED CUSTOMERS	0	0.0	4	3.4	115	95.1	2	1.7	0	0.0	121
8. NEW CUSTOMERS	1	0.9	20	16.6	96	79.4	4	3.4	0	0.0	121
9. LOCAL SERVICE AREA CUSTOMERS	0	0.0	5	4.2	112	93.4	3	2.5	0	0.0	120
10. NONLOCAL SERVICE AREA CUSTOMERS	6	5.0	23	19.2	91	75.9	0	0.0	0	0.0	120
COMPENSATING BALANCE REQUIREMENTS FOR:											
11. COMMERCIAL & INDUSTRIAL LOANS	0	0.0	26	21.5	88	72.8	7	5.8	0	0.0	121
12. LOANS TO FINANCE COMPANIES	1	0.9	11	9.1	105	86.8	4	3.4	0	0.0	121

WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
13. SECURED CONSTRUCTION & LAND DVLPMNT	0	0.0	8	6.7	90	74.4	22	18.2	1	0.9	121
SECURED REAL ESTATE LOANS:											
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0.0	7	5.9	92	76.7	16	13.4	5	4.2	120
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	1	0.9	96	82.1	17	14.6	3	2.6	117
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	6	5.0	98	81.0	17	14.1	0	0.0	121
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0.0	7	5.9	109	90.9	4	3.4	0	0.0	120
COMMERCIAL AND INDUSTRIAL LOANS OF:											
18. 1-5 YEARS MATURITY	0	0.0	2	1.7	111	91.8	8	6.7	0	0.0	121
19. OVER 5 YEARS MATURITY	0	0.0	4	3.4	97	80.2	18	14.9	2	1.7	121
20. LOANS TO FINANCE COMPANIES	0	0.0	1	0.9	111	91.8	9	7.5	0	0.0	121
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0.0	3	2.5	98	81.7	15	12.5	4	3.4	120
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	1	0.9	14	11.6	101	83.5	4	3.4	1	0.9	121

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DOMESTIC ASSETS
(STATUS OF POLICY ON AUGUST 15, 1978 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS ANSWERING EACH QUESTION AS PERCENT OF TOTAL NUMBER OF BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DOMESTIC ASSETS IN BILLIONS

L O A N D E M A N D	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER		TOTAL	
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
1. COMPARED TO THREE MONTHS EARLIER	0	4	62	44	33	46	5	6	0	0	100	100
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	0	2	67	45	33	52	0	1	0	0	100	100

I N T E R E S T R A T E P O L I C Y	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL	
STANDARDS OF CREDIT WORTHINESS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
3. TO QUALIFY FOR PRIME RATE	0	0	5	11	95	87	0	2	0	0	100	100
4. TO QUALIFY FOR SPREAD ABOVE PRIME	0	0	10	26	76	72	14	2	0	0	100	100

	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL	
WILLINGNESS TO MAKE FIXED RATE LOANS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
5. SHORT-TERM (UNDER ONE YEAR)	0	0	0	6	90	80	10	11	0	3	100	100
6. LONG-TERM (ONE YEAR OR LONGER)	0	0	10	6	76	60	10	24	5	10	100	100

C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL	
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
7. ESTABLISHED CUSTOMERS	0	0	0	4	100	94	0	2	0	0	100	100
8. NEW CUSTOMERS	0	1	5	19	90	77	5	3	0	0	100	100
9. LOCAL SERVICE AREA CUSTOMERS	0	0	0	5	95	93	5	2	0	0	100	100
10. NONLOCAL SERVICE AREA CUSTOMERS	0	6	10	21	90	73	0	0	0	0	100	100
COMPENSATING BALANCE REQUIREMENTS FOR:												
11. COMMERCIAL & INDUSTRIAL LOANS	0	0	5	25	76	72	19	3	0	0	100	100
12. LOANS TO FINANCE COMPANIES	0	1	0	11	90	86	10	2	0	0	100	100

	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL	
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5	$5 & OVER	UNDER $5
13. SECURED CONSTRUCTION & LAND DVLPMNT	0	0	14	5	71	75	14	19	0	1	100	100
SECURED REAL ESTATE LOANS:												
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0	0	7	95	73	5	15	0	5	100	100
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0	0	1	78	83	22	13	0	3	100	100
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0	10	4	81	81	10	15	0	0	100	100
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0	10	5	90	91	0	4	0	0	100	100
COMMERCIAL AND INDUSTRIAL LOANS OF:												
18. 1-5 YEARS MATURITY	0	0	0	2	100	90	0	8	0	0	100	100
19. OVER 5 YEARS MATURITY	0	0	10	2	90	78	0	16	0	2	100	100
20. LOANS TO FINANCE COMPANIES	0	0	0	1	95	91	5	8	0	0	100	100
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0	5	2	86	81	10	13	0	4	100	100
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	1	19	10	81	84	0	4	0	1	100	100