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September 12, 1979

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			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
(At annual rate)						
Civilian labor force	Aug.	9-7-79	103.0	-1	3.1	2.4
Unemployment rate (%) <u>1/</u>	Aug.	9-7-79	6.0	5.7	5.8	5.9
Insured unemployment rate (%) <u>1/</u>	Aug.	9-7-79	3.1	2.9	3.0	3.7
Nonfarm employment, payroll (mil.)	Aug.	9-7-79	88.8	.0	1.2	3.1
Manufacturing	Aug.	9-7-79	20.7	-7.1	-3.2	2.3
Nonmanufacturing	Aug.	9-7-79	68.1	2.2	2.6	3.3
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Aug.	9-7-79	35.6	35.6	35.7	35.8
Hourly earnings (\$) <u>1/</u>	Aug.	9-7-79	6.19	6.18	6.09	5.73
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Aug.	9-7-79	40.0	40.2	40.2	40.3
Unit labor cost (1967=100)	July	8-29-79	175.7	6.9	1.1	7.4
Industrial production (1967=100)	July	8-16-79	152.1	-1.6	3.4	3.4
Consumer goods	July	8-16-79	149.5	-11.9	1.1	-2
Business equipment	July	8-16-79	172.5	4.9	9.0	6.7
Defense & space equipment	July	8-16-79	92.4	-2.6	-2.2	5.6
Materials	July	8-16-79	156.3	.8	4.7	4.7
Consumer prices all items (1967=100)	July	8-24-79	218.4	11.7	12.3	11.3
All items, excluding food & energy	July	8-24-79	207.3	8.7	9.9	9.5
Food	July	8-24-79	235.0	1.5	4.0	10.0
Producer prices: (1967=100)						
Finished goods	Aug.	9-7-79	217.9	13.9	11.1	11.1
Intermediate materials, nonfood	Aug.	9-7-79	247.7	16.7	16.1	13.8
Crude foodstuffs & feedstuffs	Aug.	9-7-79	246.3	-2.9	2.5	14.2
Personal income (\$ bil.) <u>2/</u>	July	8-16-79	1932.7	17.1	11.1	12.4
(Not at annual rates)						
Mfrs. new orders dur. goods (\$ bil.)	July	8-30-79	72.5	-4.6	-4.7	10.0
Capital goods industries	July	8-30-79	22.6	-7.0	-5.7	15.5
Nondefense	July	8-30-79	20.4	-6.6	-1.9	16.7
Defense	July	8-30-79	2.2	-10.3	-30.3	5.0
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	July	9-11-79	1.44	1.43	1.44	1.44
Manufacturing	July	8-30-79	1.55	1.54	1.56	1.55
Trade	July	9-11-79	1.34	1.33	1.33	1.33
Ratio: Mfrs.' durable goods inventories to unfilled orders <u>1/</u>	July	8-30-79	.555	.548	.543	.601
Retail sales, total (\$ bil.)	Aug.	9-10-79	72.8	.7	1.2	8.1
GAF <u>3/</u>	Aug.	9-10-79	16.1	.7	2.7	9.0
Auto sales, total (mil. units.) <u>2/</u>	Aug.	9-5-79	11.0	3.4	-.7	-8.0
Domestic models	Aug.	9-5-79	8.8	7.7	7.5	-10.6
Foreign models	Aug.	9-5-79	2.2	-10.8	-24.0	4.4
Plant & Equipment expen. (\$ bil.) <u>4/</u>						
All Industries	1979	9-6-79	174.11	—	—	13.2
	QII '79	9-6-79	173.48	4.5	—	15.1
	QIII '79	9-6-79	175.29	1.0	—	12.8
	QIV '79	9-6-79	179.56	2.4	—	9.5
Capital Appropriations, Mfg.	QII '79	8-29-79	21,410	-5.2	—	42.0
Housing starts, private (thous.) <u>2/</u>	July	8-16-79	1,799	-7.0	3.1	-14.5
Leading indicators (1967=100)	July	8-29-79	139.3	-4	-4	-1.3

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

4/ Planned-Commerce August 1979 Survey.

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Recent data suggest that, following the second quarter decline, economic activity is showing little change on balance in the third quarter. Both business fixed capital outlays and state and local government spending rebounded from the effects of transitory factors that had damped growth earlier. But the key underlying forces that have been depressing activity still appear to be dominant. Employment growth has continued to weaken, real wage and salary payments have declined further, consumer demand in real terms has remained sluggish, and inflation has persisted unabatedly. Moreover, an unintended rise in July inventories has added a new element of instability in developments.

### Employment and Production

Labor demand eased appreciably in August. Total employment, as measured by the household survey, declined 310,000 to about the level in March. As a result, the jobless rate rose 0.3 percentage point to 6.0 percent in August, with adult women and teenagers registering the largest increases. Since the June low in the total unemployment rate, jobless rates for experienced workers have risen about 1/3 percentage point.

Nonfarm payroll employment was unchanged in August as declines in manufacturing and construction were offset by increases in the service-producing sector. Manufacturing employment fell nearly 125,000 (almost 80,000 after allowing for changes in workers on strike), with widespread declines among producers of both durable and nondurable goods. The

CHANGES IN EMPLOYMENT 1/  
(Thousands of employees; based on seasonally adjusted data)

	1978	1978		1979			
		QIV	QI	QII	July	Aug.	
		- - - Average monthly changes - - -					
<u>Nonfarm payroll employment</u> 2/	297	373	327	167	49	2	
Strike adjusted	281	352	329	176	36	31	
Manufacturing	62	148	78	-24	-30	-123	
Durable	53	108	69	-17	10	-59	
Nondurable	9	39	9	-7	-40	-64	
Construction	37	33	43	28	35	-51	
Trade, Finance and Services	145	140	169	86	18	143	
Private nonfarm production workers	224	306	245	76	4	-103	
Manufacturing production workers	45	128	56	-40	-43	-143	
<u>Total employment</u> 3/	275	282	329	-29	456	-310	
Nonagricultural	268	288	344	-2	455	-371	

1/ Changes are from final month of preceding period to final month of period indicated.

2/ Survey of establishments. Not strike adjusted, except where noted.

3/ Survey of households.

SELECTED UNEMPLOYMENT RATES  
(Percent; based on seasonally adjusted data)

	1973	1978		1979			
		QIV	QI	QII	June	July	Aug.
Total, 16 years and older	4.9	5.8	5.7	5.7	5.6	5.7	6.0
Teenagers	14.5	16.3	15.8	16.2	15.3	15.3	16.5
20-24 years old	7.8	9.0	8.7	8.8	8.9	9.0	9.3
Men, 25 years and older	2.5	3.2	3.2	3.2	3.1	3.3	3.5
Women, 25 years and older	4.0	4.9	4.9	4.9	4.8	4.7	5.0
White	4.3	5.1	5.0	4.9	4.9	4.9	5.3
Black and other	8.9	11.5	11.4	11.6	11.3	10.8	11.0
Fulltime workers	4.3	5.2	5.2	5.2	5.1	5.3	5.4
White collar	2.9	3.3	3.4	3.3	3.4	3.2	3.6
Blue collar	5.3	6.7	6.5	6.7	6.5	6.8	7.6

factory workweek declined 0.2 hour to 40.0 hours in August. There is also substantial evidence that employment dropped in the motor vehicle industry, although the decline is not reflected in the August payroll survey. Industry sources estimate that by early September layoffs had reached a level of more than 80,000.

Industrial production is tentatively estimated to have declined 1 percent or somewhat more in August, following two months of little change. Output of consumer goods declined sharply as auto assemblies fell 15 percent to a 7.5 million unit annual rate and output of related industries also dropped. The September schedule for auto assemblies indicates a rise to an 8.1 million unit annual rate as manufacturers increase production of 1980 models, but this is well below the 8.9 million unit rate that prevailed in the first half of the year. Production of business equipment, which had held up fairly well earlier this year, also dropped moderately, as did output of materials. The declines in these sectors were widespread, most notably in production of business vehicles, parts for consumer durable goods, and raw steel.

Reflecting the estimated drop in manufacturing output in August, the rate of capacity utilization in that sector appears to have decreased by about 1-1/4 percentage points to 84-3/4 percent. The manufacturing utilization rate has fallen roughly 2-1/2 percentage points below the March peak and is 3-1/4 percentage points below the 1973 high. The rate of capacity utilization for industrial materials is estimated to have



eased by about 1 percentage point in August to 2-1/2 percentage points below its recent peak level in December 1978 and about 6 percentage points below its 1973 high.

#### Personal Income and Consumer Spending

Income growth improved somewhat in July, but in August payroll employment was unchanged and the workweek edged down; consequently, income gains probably were small. Personal income advanced at a 17 percent annual rate in July, but about 40 percent of the gain resulted from the annual cost-of-living raises in Social Security and veterans' benefits. Even excluding those increases, personal income grew at a slightly faster pace than in recent months. Nevertheless, in real terms, total personal income was still 1-1/2 percent below its December 1978 high, as wage and salary income continued to decline in July.

Retail sales advanced 0.7 percent in August for the second consecutive month. To some extent, the gain in sales was associated, both directly and indirectly, with the improved availability of gasoline. Increases were divided about evenly between sales of durables and non-durables, as furniture and appliance stores and gasoline stations registered relatively large advances. Excluding autos and nonconsumption items, nominal retail sales rose almost 1 percent for the second month in a row. In real terms, retail sales in August probably changed little and were about 4 percent below the level of last December.

PERSONAL INCOME  
(Based on seasonally adjusted annual rate data)

	1977	1978	1979			
			QI	QII	June	July
- - Average monthly change, in billions of dollars - -						
Total personal income	\$13.9	\$17.8	\$15.1	\$11.1	\$13.4	\$27.2
Nonagricultural income	12.6	17.1	15.3	11.5	13.2	27.2
Agricultural income	1.2	.7	-.2	-.4	.2	.0
Wage and salary disbursements	8.4	11.5	11.8	5.8	8.9	8.9
Private	7.0	10.1	10.8	4.6	7.9	8.1
Manufacturing	2.5	3.2	3.5	.6	1.5	1.6
Other income	6.0	7.1	5.6	5.6	4.9	18.9
Transfer payments	1.2	1.5	1.8	1.9	.9	14.0
- - Percentage change, compound annual rates <u>1/</u> - -						
Total personal income						
Current dollars	11.5	12.9	11.4	9.0	8.5	17.1
Constant dollars <u>2/</u>	4.5	3.6	.4	-4.1	-3.2	5.4
Wage and salary disbursements						
Current dollars	11.2	12.8	12.7	7.9	8.8	8.7
Constant dollars <u>2/</u>	4.2	3.5	1.5	-5.0	-2.9	-2.9

1/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly percent changes at annual rates, not compounded.

2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

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

	1979		1979			
	QI	QII	May	June	July	Aug.
Total sales	1.9	.5	.8	-.2	.7	.7
(Real) <u>1/</u>	-1.0	-2.0	-.6	-.8	.1	n.a.
Total, less auto and nonconsumption items	1.7	2.4	1.0	1.0	.9	.9
GAF <u>2/</u>	-.4	2.4	2.8	-.8	2.8	.7
<u>Durable</u>	1.6	-2.7	.5	-1.7	.3	1.0
Auto	3.6	-7.1	-1.0	-5.3	-.3	.3
Furniture & appliances	1.7	2.3	2.1	4.5	2.6	4.2
<u>Nondurable</u>	2.1	2.3	.9	.6	.9	.6
Apparel	-1.1	.8	2.5	-.9	4.7	-.5
Food	3.5	2.5	.4	2.0	-.2	-.1
General merchandise <u>3/</u>	-1.0	3.1	3.2	-2.8	2.2	-.4
Gasoline	4.4	7.2	3.3	2.3	-2.4	4.7

1/ BCD series 59.

2/ General merchandise, apparel, furniture and appliance stores.

3/ General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES  
(Millions of units; seasonally adjusted annual rates)

	1978	1979					
	QIV	QI	QII	May	June	July	Aug.
Total	11.1	11.5	10.6	11.0	9.5	10.6	11.0
Imports	2.0	2.4	2.6	2.9	2.4	2.5	2.2
Domestic	9.1	9.1	8.0	8.2	7.2	8.1	8.8
Small	3.5	3.7	3.9	4.0	3.5	3.8	3.3
Intermediate & Standard	5.6	5.4	4.1	4.1	3.6	4.4	5.4

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

Total auto sales were at an 11.0 million unit annual rate in August, up almost 1 million units from the depressed June-July sales pace. Sales of domestic units surged to an 8.8 million unit annual rate--the highest since March--as manufacturers' sales incentive programs permitted substantial price reductions on overstocked large-model cars. However, with the ending of the sales programs at General Motors and Ford, demand for these models is likely to fall somewhat. Some of the August strength in sales of domestic-model cars apparently was at the expense of imports as sales of foreign cars--which for many makes were in short supply--fell to a 2.2 million unit annual rate in August for the slowest pace since January.

Measures of consumer attitudes in August continued to indicate depressed levels of confidence. The Conference Board index of consumer confidence--a monthly composite of five questions on both present and expected economic conditions--declined further to its lowest level since early 1975. The Michigan Survey Research Center index of sentiment increased slightly in August, but it too was close to its 1975 low. Evaluations of market conditions for purchasing automobiles in the Michigan survey improved somewhat as respondents reacted favorably to automobile price discounts and the increased availability of fuel-efficient models.

Business Fixed Investment

Business fixed investment spending rose in July as expenditures on capital equipment recouped much of the loss in the spring that had resulted from the strike- and fuel-related disruptions. Shipments of nondefense capital goods rose 2.5 percent after a 0.6 percent decline in the second quarter. In addition, sales of heavy-weight trucks advanced sharply following three months of decline. Expenditures on private nonresidential construction, however, increased only slightly.

Despite the strength of current outlays, indicators of near-term capital spending commitments have continued to suggest that the pace of outlays is not likely to be sustained. New orders for nondefense capital goods fell 6.6 percent in July; since March these bookings have fallen 15 percent. While much of the weakness in July was due to a drop in aircraft orders, new orders for the machinery component of nondefense capital goods--more indicative of underlying short-run equipment demand--fell 2 percent; these orders are 12 percent below the March peak. Contracts awarded for nonresidential construction continued to be weak; building contracts in July remained near the levels that prevailed in the first half of the year.

Weakening prospects for fixed capital spending later this year also are indicated by the latest Commerce Department survey of plant and equipment expenditure plans for 1979. The survey, taken in late July and early August, reported that businesses plan to increase capital spending in 1979 by about 13 percent, 1/2 percent more than the rise

BUSINESS INVESTMENT SPENDING

(Percent change from preceding comparable period, based on seasonally adjusted data)

	1978	1979					July 1978 to July 1979
	QIV	QI	QII	May	June	July	
Nondefense capital goods shipments	4.1	5.2	- .6	2.4	-1.4	2.5	15.5
Nonresidential construction put-in-place	5.3	.0	7.4	4.4	1.8	0.5	17.6
Building	5.4	.6	10.9	6.1	3.4	0.5	24.1
Nonbuilding	5.2	- .7	3.0	2.3	-0.4	0.4	9.6

BUSINESS SPENDING COMMITMENTS

(Percent change from preceding comparable period, based on seasonally adjusted data)

	1978	1979					July 1978 to July 1979
	QIV	QI	QII	May	June	July	
Nondefense capital goods orders	9.5	12.0	-6.9	1.0	4.1	-6.6	16.7
Machinery	n.a.	n.a.	-5.5	1.4	1.9	-2.0	n.a.
Nonmachinery	n.a.	n.a.	-9.8	0.0	8.9	-16.5	n.a.
Manufacturers Capital appropriations <u>1/</u>	18.8	19.7	-6.1	n.a.	n.a.	n.a.	41.1 <u>2/</u>
Excluding petroleum	10.8	25.8	-4.9	n.a.	n.a.	n.a.	48.12 <u>2/</u>

1/ Net of cancellations.

2/ 1978 QII to 1979 QII.

Note: Orders data have been revised by the Department of Commerce.  
Detailed revised data prior to January are not yet available.

PLANT AND EQUIPMENT EXPENDITURES  
(Percent change from prior year)

	Anticipated for 1979					
	Commerce Department <sup>1/</sup>				McGraw-Hill	
	December Survey	February Survey	May Survey	August Survey	Fall Survey	Spring Survey
All business	11.2	11.3	12.7	13.2	9.9	15.7
Manufacturing	13.8	14.7	14.8	14.6	10.3	20.3
Durables	16.2	19.5	16.9	18.5	12.2	23.3
Nondurables	11.7	10.4	12.9	11.2	8.6	17.8
Nonmanufacturing	9.1	8.6	11.1	12.0	9.5	12.0

<sup>1/</sup> Results are adjusted for systematic bias. Without this adjustment, the December Commerce survey showed a 11.6 percent increase, the February Commerce Survey showed a 13.5 percent increase, the May survey a 14.1 percent increase, and the August survey a 15.2 percent increase.

Recent Performance of Plant and Equipment Surveys  
(Percent change from prior year)

Year	Actual	Commerce Department				McGraw-Hill	
		December Survey	February Survey	May Survey	August Survey	Fall Survey	Spring Survey
1974	12.7	12.0	13.0	12.2	12.5	13.6	19.5
1975	0.3	4.6	3.3	1.6	1.0	11.8	5.5
1976	6.8	5.5	6.5	7.3	7.4	8.8	12.9
1977	12.7	11.3	11.7	12.3	13.3	13.0	18.0
1978	13.3	10.1	10.9	11.2	12.3	11.1	17.3

reported in the May survey. However, the upward revision reflected primarily higher than expected spending in the second quarter of 1979, and the survey results suggest a deceleration of spending growth from a 12 percent annual rate over the first half of the year to a 7 percent annual rate over the latter half. Capital appropriations of the 1000 largest manufacturers (net of cancellations) fell 6 percent in the second quarter, following increases of nearly 20 percent in each of the preceding two quarters.

#### Inventory Investment

As in the case of fixed investment, recent data indicate an acceleration in inventory investment in July. The book value of manufacturing and trade stocks increased at a record \$94 billion annual rate, almost twice the average pace over the first half of the year. However, the extremely large rise in inventories was accompanied by a sizable advance in total sales, and the ratio of manufacturing and trade stocks to sales edged up only slightly to 1.44--still low on an historical comparison. Retail trade inventories increased at an annual rate of \$28 billion in July, the highest monthly rise on record. Stocking continued at auto dealers where serious excesses have been observed. Nonetheless, automobile production and sales data indicate that a correction undoubtedly was underway in August. Wholesalers added to stocks at an annual rate of \$33.5 billion in July. Nearly a third of this increase was in stocks of raw farm products and more than a fourth was in motor vehicles and automotive supplies.



BUSINESS INVENTORIES  
 (Billions of dollars; annual rate of change  
 in seasonally adjusted book values)

	1978	1979			
		QI	QII	June(r)	July(p)
Manufacturing and trade	41.5	49.1	56.3	53.5	94.1
Manufacturing	18.1	30.2	35.0	39.0	32.9
Durable	13.7	24.2	25.7	26.4	17.4
Nondurable	4.4	6.0	9.3	12.7	15.5
Trade, total	23.5	18.9	21.3	14.5	61.2
Wholesale	12.8	13.2	4.7	-.1	33.5
Retail	10.7	5.6	16.6	14.6	27.7

r = Revised.

p = Preliminary.

INVENTORY TO SALES RATIOS

	1978	1979			
		QI	QII	June(r)	July(p)
Manufacturing and trade	1.42	1.41	1.44	1.43	1.44
Manufacturing	1.52	1.49	1.55	1.54	1.55
Durable	1.85	1.82	1.94	1.95	1.96
Nondurable	1.15	1.11	1.10	1.10	1.10
Trade, total	1.33	1.33	1.33	1.33	1.34
Wholesale	1.29	1.23	1.18	1.17	1.18
Retail	1.45	1.43	1.48	1.48	1.50

r = Revised.

p = Preliminary.

The book value of manufacturers' inventories increased at a seasonally adjusted annual rate of \$33 billion in July--somewhat less than the \$39 billion June rate, but about equal to the average for the first half of the year. Even so, this rate of accumulation far exceeds the gains throughout 1978. In July, stock building was fairly evenly divided between producers of durable and nondurable goods, with large increases at manufacturers of nonelectrical machinery, transportation equipment (over half of which was at motor vehicle and parts producers), and at manufacturers of food products.

Residential Construction

Housing activity has continued to hold up quite well in recent months. Private housing starts were at a 1.8 million unit annual rate in July--about the same as the average pace during the second quarter, although well below the 1978 level. However, mortgage credit has become more expensive and remains in relatively tight supply, while the stock of unsold new units has remained at a relatively high level. These developments suggest the likelihood of some near-term contraction in production.

In the single-family sector, starts fell 6 percent in July but have remained within a 1.2 - 1.3 million unit rate range since March. New home sales were up sharply in July--possibly reflecting improved gasoline supplies--and sales of existing homes have continued brisk, remaining about 5 percent below last year's record levels. Prices of existing homes have continued to climb rapidly, with the July average up about 18 percent from a year earlier.

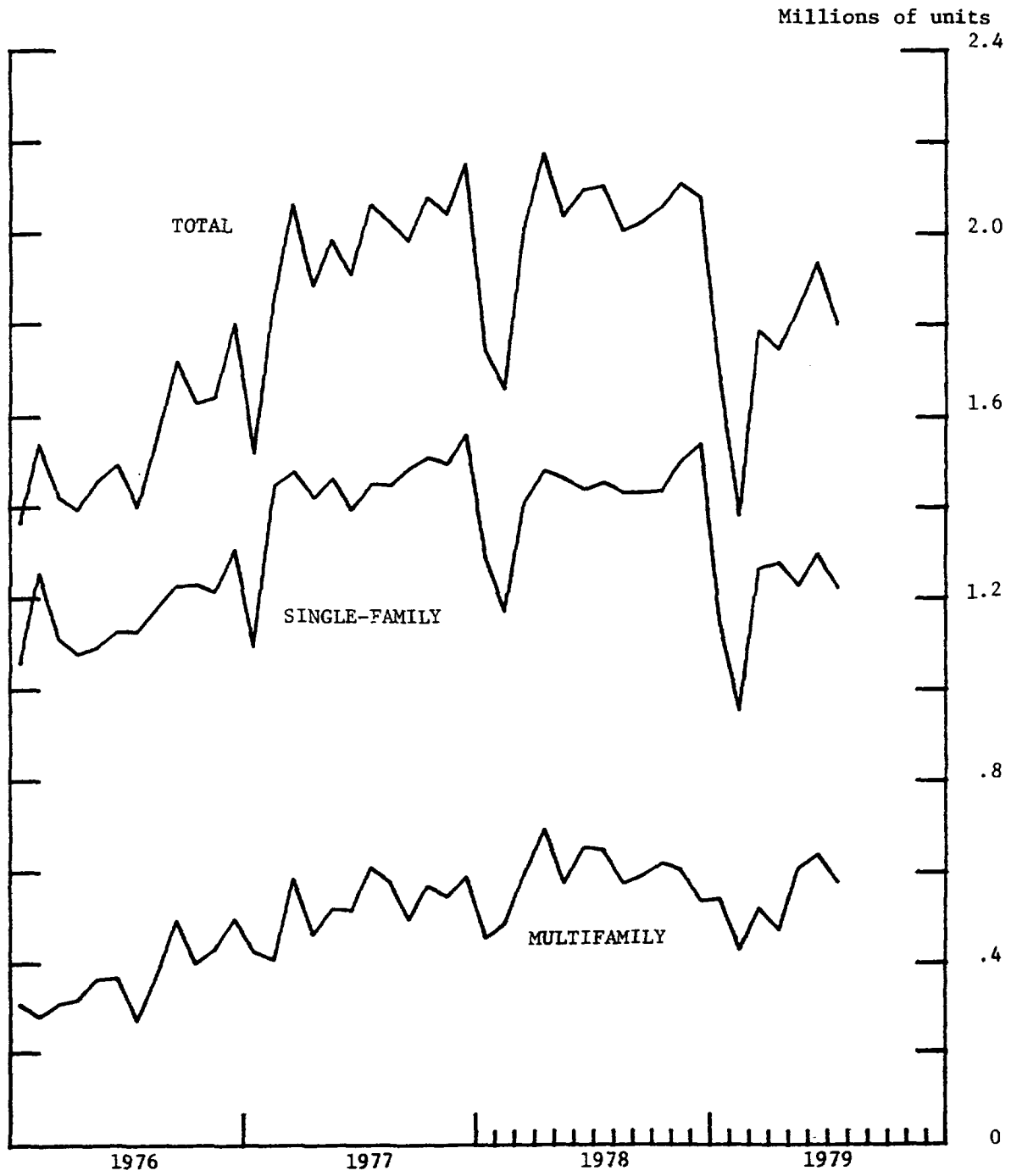
NEW PRIVATE HOUSING ACTIVITY  
(Seasonally adjusted annual rates, millions of units)

	1978		1979				
	Annual	QIV	QI	QII	May <sup>1/</sup>	June <sup>1/</sup>	July <sup>2/</sup>
<b>Total</b>							
Permits	1.80	1.82	1.50	1.59	1.62	1.64	1.52
Starts	2.02	2.08	1.62	1.84	1.84	1.94	1.80
<b>Single-family</b>							
Permits	1.18	1.22	.95	1.03	1.05	1.01	.99
Starts	1.43	1.49	1.12	1.27	1.23	1.30	1.22
<b>Sales</b>							
New homes	.82	.84	.75	.71	.71	.70	.82
Existing homes	3.91	4.27	3.66	3.73	3.86	3.56	3.77
<b>Multifamily</b>							
Permits	.62	.60	.54	.56	.57	.63	.53
Starts	.59	.59	.50	.57	.61	.64	.58
Mobile home shipments	.28	.28	.28	.27	.27	.28	.26

<sup>1/</sup> Regular monthly revision.

<sup>2/</sup> Preliminary estimates except permits which reflect first monthly revision.

NEW PRIVATE HOUSING STARTS  
(Seasonally adjusted annual rate)



Multifamily housing starts dropped by almost 10 percent in July. However, this decline followed two months of quite strong activity, and the July rate of starts was only marginally below last year's average pace. The comparative strength in this sector reflects both continued low rental vacancy rates and strong demand for condominium units.

Government Sector Activity

Treasury data for July and August now suggest that outlays are falling short of agency spending plans for fiscal year 1979 and that the actual deficit is likely to fall somewhat below the Administration's most recent forecast of \$30-1/2 billion. Shortfalls are apparently occurring in programs for health care, unemployment compensation, the Strategic Petroleum Reserve, and farm product price supports (Commodity Credit Corporation). The shortfall in the latter category is indicated by Department of Agriculture data that show a sharp rise in CCC loan repayments (negative outlays in the budget accounts).

For fiscal year 1980, the Administration expects a \$29 billion deficit, with outlays and receipts of \$543 and \$514 billion, respectively. While the Congress has not yet passed the Second Concurrent Resolution on the 1980 budget, the Senate Budget Committee has recommended a \$28 billion deficit--essentially in line with the Administration's goal. (These deficit estimates do not allow for a tax cut in 1980 and do not reflect the Administration's recent decision to increase the pay raise for federal employees to 7 percent from the previously intended 5.5 percent. The pay raise is expected to add almost \$0.8 billion to outlays in fiscal year 1980.)

State and local government spending has rebounded somewhat in recent months but remains on a moderate growth path. Capital outlays, as measured by the value of construction put-in-place, rose by 6 percent in July. Much of this gain was due to a surge in spending for power projects, but spending for water supply facilities and housing and redevelopment building also advanced from low levels of activity in June. Despite the strong gain in July, construction spending in real terms in July was still 7 percent below its year-earlier level. State and local government payrolls increased by nearly 30,000 in August, in line with the average gain so far this year.

#### Prices

Aggregate price measures continue to indicate rapid rates of inflation in the third quarter. Producer prices of finished goods increased at nearly a 14 percent annual rate in August, faster than the average over the previous 7 months. In July, consumer prices increased at close to the 13 percent rate experienced earlier in this year.

Recent retail price movements continue to be dominated by developments in the energy sector. Increases for gasoline and fuel oil were in the 5-6 percent range (not annual rate) in July, similar to the March-June average. Gas and electricity rates also rose substantially, though less than in May or June. From last December through July, prices of energy items have climbed at an annual rate of over 45 percent, compared with 8 percent during 1978. Given their relative importance in the CPI--about 8-1/2 percent of the total--this acceleration has contributed about

3 of the 4.1 percentage point acceleration in the rate of CPI increase so far this year. Producer prices in August at all stages of processing reflected the continued sharp climb in the energy component.

In contrast to energy, rates of increase in food prices at the consumer level slowed to about a 2 percent annual rate in June and July as prices for meats and poultry declined. However, producer prices of finished foods turned up in August with particularly large increases for fresh fruits and vegetables, cereals, and bakery products; this probably portends higher prices at retail later this year.

Outside the food and energy areas, the pace of inflation for consumers was again rapid in July, though somewhat below that in recent months. Homeownership costs continued to rise at close to the 17 percent annual rate that prevailed in the first half of the year. This component, affected mainly by house prices and mortgage interest rates, accounts for most of the remaining acceleration in the CPI this year. Among other items, large increases were registered for new cars and rents, partially offset by further declines for used cars and apparel.

At the producer level prices of finished goods excluding food and energy items rose at about a 7 percent annual rate in August, below the average earlier this year. Prices declined for trucks and passenger cars, reflecting the rebate and incentive programs in effect in mid-August. Partly as a result of these declines, prices of capital equipment edged up only 0.1 percent, the smallest monthly rise in more than 6 years. Prices of intermediate materials excluding food and energy rose sharply, but at a slower pace than in July.

RECENT CHANGES IN CONSUMER PRICES <sup>1/</sup>  
 (Percent change at compound annual rates; based  
 on seasonally adjusted data except as noted) <sup>2/</sup>

	Relative importance Dec. 1978	1978	Dec. 78- July 79	1979	
				June	July
All items	100.0	9.0	13.1	11.8	11.7
Food	18.2	11.8	10.8	2.0	1.5
Commodities (nonfood)	41.1	7.7	14.6	15.7	14.9
Services	40.8	9.3	12.4	12.5	12.9
Memoranda:					
All items less food and energy <sup>3/</sup>	73.3	8.5	10.1	10.0	8.7
Gas and electricity	3.4	7.9	20.2	39.7	19.9
Gasoline	4.2	8.5	63.4	67.5	60.3
Homeownership	23.6	12.4	17.4	16.9	16.7

<sup>1/</sup> Based on index for all urban consumers.

<sup>2/</sup> Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

<sup>3/</sup> Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity. Not seasonally adjusted.

RECENT CHANGES IN PRODUCER PRICES  
 (Percent change at compound annual rates; based  
 on seasonally adjusted data) <sup>1/</sup>

	1978	Dec. 78- Aug. 79	1979	
			July	August
Finished goods	9.2	11.5	13.0	13.9
Consumer foods	11.9	4.7	.0	14.6
Consumer nonfoods	8.4	17.3	22.3	21.3
Capital equipment	8.0	8.7	9.4	1.7
Materials:				
Intermediate <sup>2/</sup>	8.3	15.5	19.5	16.7
Construction	11.0	8.8	8.3	6.3
Crude nonfood	15.6	22.1	17.4	5.8
Crude food	18.3	10.6	24.8	-2.9
Memorandum:				
Energy commodities <sup>3/</sup>	7.1	47.2	56.5	60.6

<sup>1/</sup> Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

<sup>2/</sup> Excludes intermediate materials for food manufacturing and manufactured animal feeds.

<sup>3/</sup> Fuels and related products and power. This series is on a commodity basis, while the other data in this table are on a stage of processing basis.



Wages and Collective Bargaining

Wage rates for nonfarm production workers, as measured by the index of average hourly earnings, rose only slightly in August but remain about 7-3/4 percent above a year ago. During the past year, wage increases have accelerated somewhat for workers in manufacturing while moderating in other sectors. More detailed data concerning changes in wage and salary rates from the Employment Cost Index, which covers a broader group of nonfarm workers, suggest that the acceleration in factory wages has occurred almost wholly among unionized workers. This trend reflects the importance of 1979's heavy collective bargaining schedule on wage developments this year.

In the first two quarters of the year, almost 2 million workers negotiated new agreements, and contracts for another 1.3 million will expire in the current quarter. About half of those bargaining this quarter are covered by contracts between the United Auto Workers (UAW) and major auto producers. To date, the union has rejected the initial offer by General Motors (GM), the strike target. If no agreement is reached by September 14, the UAW may call a strike against GM, which employs about 400,000 of the 655,000 UAW members. Union leaders have indicated that any strike would likely be selective, affecting about one quarter of the GM work force. The company, however, could respond with a lockout.

The initial GM offer came close to union demands for increases in pensions for early retirees and for a raise in the number of paid personal holidays. Important differences remain concerning union demands for an improved cost-of-living formula for current workers and for a cost of living adjustment for pension payments.

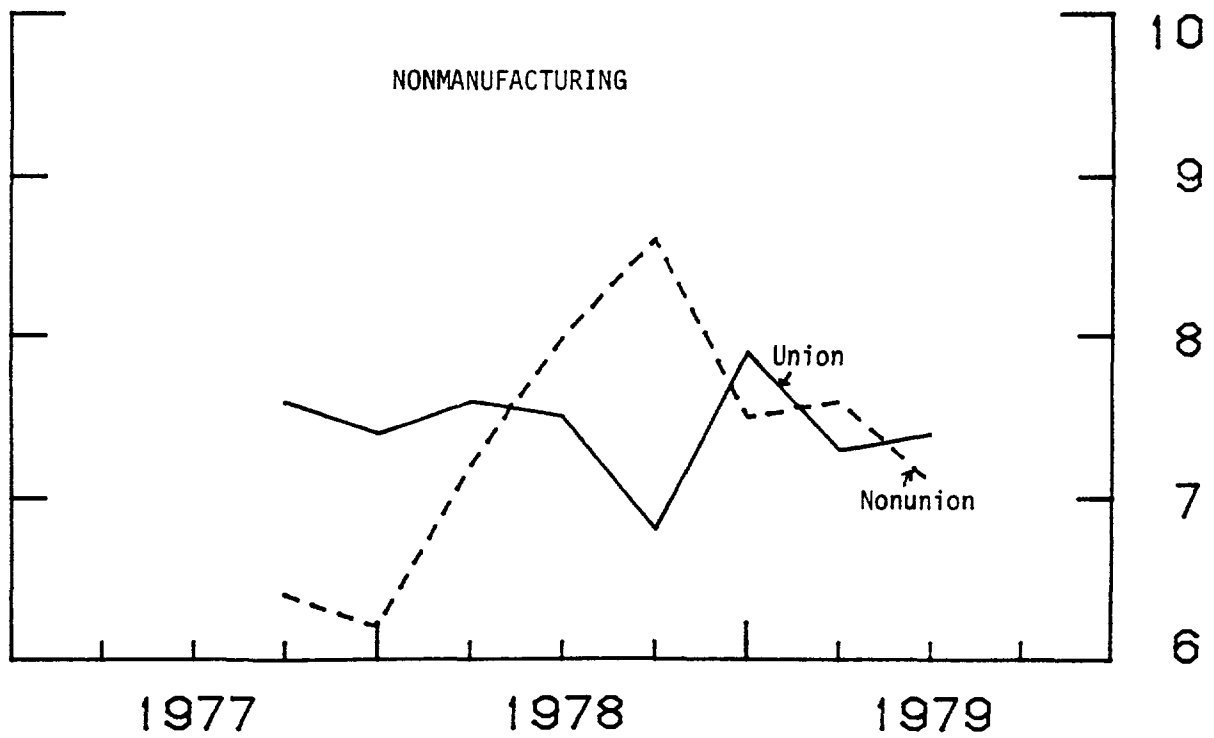
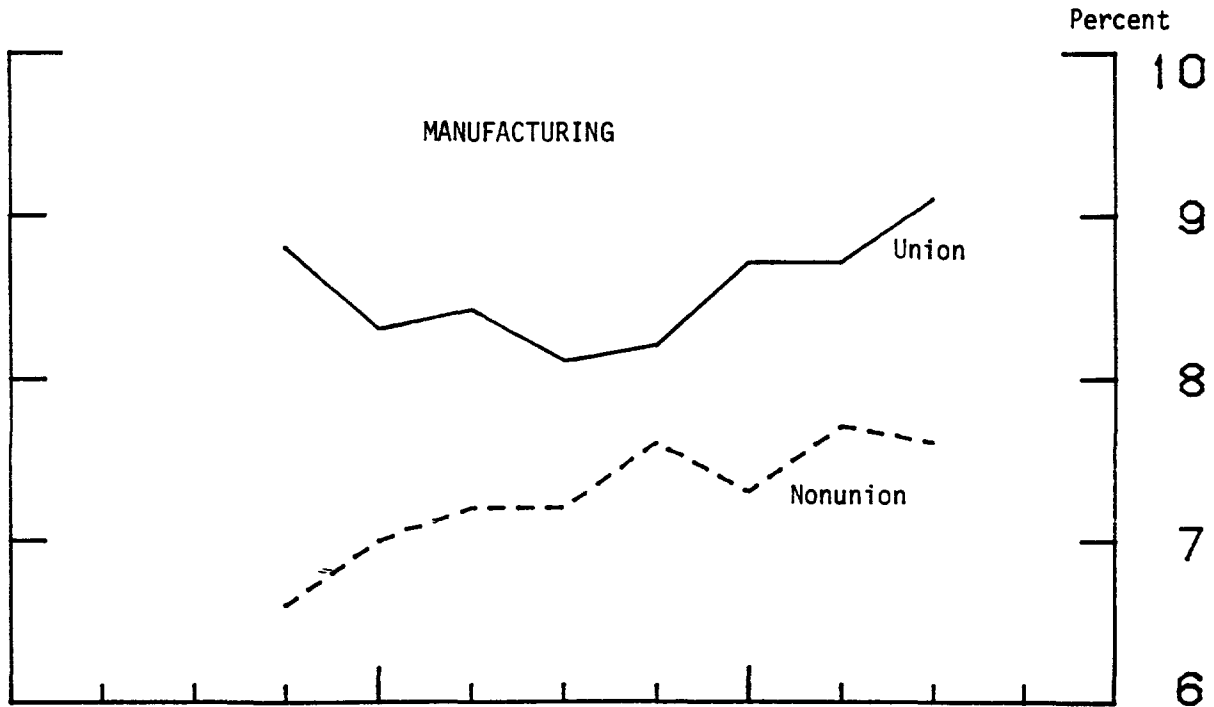
HOURLY EARNINGS INDEX 1/  
 (Percent change at compound annual rates;  
 based on seasonally adjusted data) 2/

	Aug. 77-	Aug. 78-	1979			
	Aug. 78	Aug. 79	QI	QII	July	Aug.
Total private nonfarm	8.2	7.6	9.0	6.8	8.8	2.8
Manufacturing	8.1	8.5	8.7	9.5	10.2	2.2
Contract construction	7.6	6.3	7.6	8.3	5.5	4.1
Transportation and public utilities	8.4	6.8	10.7	3.8	6.9	-3.4
Total trade	9.2	8.0	10.7	5.3	6.9	7.2
Services	7.1	7.0	8.3	4.5	7.5	4.3

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

2/ Monthly percent changes at annual rates, not compounded.

Employment Cost Indexes  
(Percent change from one year earlier)



III-T-1  
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
		<u>\$ billions</u>	<u>Per cent at annual rates</u>		
<u>Monetary and credit aggregates</u> <sup>1/</sup>					
Total reserves	Aug.	41.1	7.7	6.0	0.4
Nonborrowed reserves	Aug.	40.0	10.5	13.3	0.5
Money supply					
M1	Aug.	374.4	7.4	10.9	5.0
M2	Aug.	922.6	11.3	12.9	7.7
M3	Aug.	1579.7	9.8	11.1	8.3
Time and savings deposits (less CDs)	Aug.	548.2	14.0	14.2	9.7
CDs <sup>2/</sup>	Aug.	85.9	1.2	-4.7	-1.7
Thrift deposits (S&Ls + MSBs + Credit Unions)	Aug.	657.2	7.9	8.7	9.3
Bank credit (end of month)	Aug.	1104.7	10.1	12.2	13.4

Indicator	Latest data		Net Change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
<u>Interest yields and stock prices</u>						
Federal funds	wk. endg.	9/5/79	11.02	.36	.79	2.73
Treasury bill (90 day)	"	9/5/79	9.91	.54	.43	2.31
Commercial paper (90-119 day)	"	9/5/79	11.03	.99	1.11	2.96
New utility issue Aaa	"	9/7/79	--	--	--	--
Municipal bonds (Bond Buyer) 1 day	"	9/6/79	6.47	.34	.38	.34
FNMA auction yield (FHA/VA)	"	9/5/79	10.92	.28	.13	1.14
Dividend price ratio (common stocks)	wk endg.	9/5/79	5.37	.01	-.17	.49
NYSE index (12/31/65=50)	end of day	9/3/79	61.35	1.90	5.22	2.44

	Period	Net Change or Gross Offerings			
		Latest Data	Year ago	Year to Date	
				1979	1978
<u>Credit demands</u>					
Business loans at commercial banks <sup>1/</sup>	Aug.	3.9	2.4	33.0	23.7
Consumer instalment credit outstanding <sup>1/</sup>	July	2.4	3.5	22.7	24.3
Mortgage debt outstanding (major holders) <sup>1/3/</sup>	June	10.1	9.8	44.2	44.8
Corporate bonds (public offerings)	Aug.	1.9e	1.5	17.3e	13.7
Municipal long-term bonds (gross offerings)	Aug.	3.9e	6.4	28.1e	34.9
Federally sponsored agcy. (net borrowing)	Aug.	.3e	1.9	15.2e	15.0
U.S. Treasury (net cash borrowing)	Aug.	3.1e	9.0	13.9e	35.5

<sup>1/</sup> Seasonally adjusted.

<sup>2/</sup> \$ billions, not at annual rates

<sup>3/</sup> Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.

e-- Estimated

## DOMESTIC FINANCIAL DEVELOPMENTS

Against a backdrop of strong monetary expansion, rapid inflation, and continued vulnerability of the dollar abroad, the System has tightened money market conditions further since the August FOMC meeting. The federal funds rate has risen into the 11-3/8 percent area from about 10-3/4 percent, and the discount rate has been increased one-half percentage point to 10-1/2 percent. These developments, in combination with incoming economic data, have raised substantially the level of interest rates expected by market participants to prevail in the months ahead. As a consequence, yields on most short-term market instruments have increased a percentage point or more since mid-August, reaching new cyclical highs. Long-term bond rates also have increased, albeit remaining a bit below their spring peaks, and home mortgage rates in the primary market have edged to record levels.

Private commentary indicates some concern that the recent firming of rates may signal the prospect of more stringent conditions of credit availability in coming months. To date, however, aggregate credit flows have been well maintained, owing partly to the market innovations and regulatory changes that thus far have obviated the abrupt supply curtailments seen in past cycles. Business borrowing has continued sizable, especially in short- and intermediate-term markets, and state and local government debt issuance has remained heavy, buoyed by sales of mortgage revenue bonds. The Treasury has raised a considerable amount of new money since mid-August, in anticipation of its substantial fourth quarter cash needs. Only household borrowing has declined noticeably in recent months, largely reflecting a reduction in installment credit growth associated with weak consumer spending.

III-2  
SELECTED FINANCIAL MARKET QUOTATIONS  
(percent)

	1974 <sup>1/</sup> High	1978 <sup>1/</sup> Jan. 4	1979 <sup>1/</sup> Jan. 3	1979 2/			Change from:	
				FOMC July 11	FOMC Aug. 14	Sept. 11	July FOMC	August FOMC
<u>Short-term rates</u>								
Federal funds <sup>1/</sup>	13.55	6.69	10.59	10.28	10.80	11.29p	+1.01	+ .49
Treasury bills								
1-month	9.88	5.81	8.93	9.35	9.23	10.57	+1.22	+1.34
3-month	9.63	6.16	9.30	9.27	9.49	10.45	+1.18	+ .96
6-month	9.75	6.45	9.49	9.18	9.44	10.22	+1.04	+ .78
1-year	9.54	6.55	9.68	8.76	9.05	9.90	+1.14	+ .85
Commercial paper								
1-month	12.25	6.62	10.32	9.91	10.37	11.61	+1.70	+1.24
3-month	12.25	6.68	10.57	9.86	10.31	11.76	+1.90	+1.45
6-month	12.00	6.70	10.62	9.78	10.25	11.73	+1.95	+1.48
Large negotiable CDs <sup>3/</sup>								
1-month	12.58	6.62	10.37	10.04	10.51	11.73	+1.69	+1.22
3-month	12.64	6.76	10.93	10.05	10.64	12.01	+1.96	+1.37
6-month	12.30	7.01	11.51	10.10	10.74	12.16	+2.06	+1.42
Eurodollar deposit <sup>1/</sup>								
1-month	13.78	6.89	11.14	10.61	11.05	12.31p	+1.70	+1.26
3-month	14.01	7.25	11.81	10.64	11.25	12.61p	+1.97	+1.36
Bank prime rate	12.00	7.75	11.75	11.50	11.75	12.75	+1.25	+1.00
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	8.84	7.38	9.61	8.90	9.02	9.60	+ .70	+ .58
7-year	8.52	7.72	9.23	8.90	8.97	9.25	+ .35	+ .28
20-year	8.69	8.00	9.00	8.90	8.94	9.16	+ .26	+ .22
Municipal (Bond Buyer) <sup>4/</sup>								
	7.15	5.64	6.58	6.08	6.13	6.47	+ .39	+ .34
Corporate Aaa								
New issue <sup>5/</sup>	10.61	--	--	--	9.40	--	--	--
Recently offered <sup>6/</sup>	10.52	8.48	9.51	9.41	9.44	9.70p	+ .29	+ .26
Primary conventional mortgages <sup>6/</sup>								
	10.03	9.00	10.38	11.13	11.08	11.20	+ .07	+ .12
	1974 <sup>7/</sup> Low	1978 <sup>7/</sup> Jan. 6	1979 <sup>7/</sup> Jan. 5	FOMC July 11	FOMC Aug. 14	Sept. 11	July FOMC	August FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	577.60	807.43	821.42	843.86	876.71	869.71	+25.85	-7.00
NYSE Composite	32.89	51.34	54.74	58.86	61.26	61.29	+2.43	+ .03
AMEX Composite	58.26	125.20	154.98	197.83	204.22	221.48	+23.65	+17.26
NASDAQ (OTC)	54.87	103.13	119.92	138.85	146.30	148.39	+9.54	+2.09

- 1/ Daily averages for statement week except where noted.  
2/ One-day quotes except as noted.  
3/ Secondary market.  
4/ One-day quotes for preceding Thursday.  
5/ Averages for preceding week.  
6/ One-day quotes for preceding Friday.  
7/ Calendar week averages.

Monetary Aggregates and Bank Credit

M-1 increased in August at a 7-1/2 percent annual rate, off from the 10-3/4 percent average pace of the preceding four months, but still faster than the FOMC's longer-range growth objective. Growth in demand deposits slowed considerably, but this was partly offset by a surge in currency to nearly double the average rate of expansion earlier this year. The retarding effect of ATS and New York NOW accounts on the growth of M-1 continued to wane during the month; shifts into these deposits reduced M-1 expansion by only one-half percentage point in August, according to staff estimates.

M-2 growth also remained strong in August at 11-1/4 percent, only slightly below the rapid pace of the preceding two months. Despite the further rise in market interest rates, savings deposits expanded for the third consecutive month, although at a slower rate than in July. Growth of small time deposits matched the July pace, suggesting that money market certificates remained an important source of funds. The large-time deposit component of M-2 also increased at about the same rate as in July.

Deposit growth at nonbank thrift institutions is estimated to have slowed somewhat on a monthly average basis in August, although there was a pickup at S&Ls and MSBs on an end-of-month basis. Partial data indicate that sales of MMCs at S&Ls dropped back to June levels after a mild increase in July.<sup>1</sup> Credit unions have experienced a sharp increase in deposit growth

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<sup>1/</sup> In recent months deposit growth at S&Ls has been boosted by their increased issuance of large CDs. During the three months ending in July, net sales of large CDs by S&Ls averaged \$1.2 billion and accounted for 3 percentage points of overall S&L deposit growth--3 times the contribution to growth during the first four months of the year. In addition to large CDs, S&Ls in the past few months have apparently turned increasingly to such alternative sources of funds as RPs, commercial paper, and mortgage-backed securities. Borrowing from Home Loan Banks, on a seasonally adjusted basis, has been somewhat less in recent months than in the first four months of 1979.

MONETARY AGGREGATES  
(Seasonally adjusted annual rates of growth) 1/

	1978			1979			Aug. '78	Aug. '79 <sup>e</sup>
	HI	QIII	QIV	QI	QII	July	to	
<u>Major monetary aggregates</u>								
1. M-1	8.0	7.9	4.1	-2.1	7.6	10.1	7.4	5.0
2. Currency	9.3	9.4	10.8	9.1	8.1	9.5	16.4	10.4
3. Demand deposits	7.6	7.3	1.7	-6.2	7.5	10.3	4.0	3.0
4. M-2	7.7	9.8	7.6	1.8	8.6	12.7	11.3	7.7
5. M-3	8.3	10.3	9.3	4.7	7.9	11.3	9.8	8.3
<u>Bank time and savings deposits</u>								
6. Total	12.2	11.3	12.3	8.4	1.2	12.2	14.4	8.0
7. Other than large negotiable CDs at weekly reporting banks	7.6	11.0	10.2	4.5	9.3	14.6	14.0	9.7
8. Savings deposits	2.9	2.9	0.2	-9.6	-3.1	9.4	6.6	-1.5
9. Individuals <u>2/</u>	2.7	4.1	0.0	-9.4	-2.9	11.2	8.2	-1.2
10. Other <u>3/</u>	5.2	-10.1	0.0	-13.0	-8.1	-8.1	-32.4	-1.5
11. Time deposits	11.7	17.9	18.2	15.6	18.5	18.1	19.0	18.8
12. Small time <u>4/</u>	6.8	12.7	15.8	16.5	36.3	21.4	23.3	26.3
13. Large time <u>4/</u>	21.5	26.9	22.4	13.6	-12.1	11.5	11.4	5.9
14. Time and savings deposits sub- ject to rate ceilings (6+10)	4.7	6.9	7.0	2.2	15.1	15.3	14.9	10.7
<u>Deposits at nonbank thrift institutions <u>5/</u></u>								
15. Total	9.2	11.1	11.6	8.8	6.8	9.3	7.9	9.3
16. Savings and loan associations	9.5	12.3	13.1	11.3	7.8	10.1	8.5	10.8
17. Mutual savings banks	5.6	6.8	7.8	4.6	3.1	0.8	1.7	4.4
18. Credit unions	17.0	13.7	10.1	0.8	8.3	24.2	19.4	10.1
<u>MEMORANDA:</u> Average monthly changes, billions of dollars								
19. Total U.S. govt. deposits <u>6/</u>	0.3	1.1	-0.4	-2.0	1.5	2.2	0.0	-0.1
20. Total large time deposits <u>7/</u>	3.6	2.9	4.7	1.3	-6.3	0.8	2.2	0.4
21. Nondeposit funds	1.8	1.6	2.2	5.3	5.0	3.6	8.3	4.2
22. Domestic <u>8/</u>	1.3	0.9	1.6	2.0	1.3	2.1	4.7	1.7
23. Net due to related foreign institutions	0.5	0.7	0.6	3.3	3.7	1.6	3.6	2.5

e--estimated.

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 are 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 are based on average of current and preceding end-of-month data.

6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

7/ All large time certificates, negotiable and nonnegotiable, at all CBs.

8/ Domestic 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), and loans sold, less interbank borrowings.



since June, apparently reflecting the introduction of new floating-ceiling time accounts. The ceiling rate permitted on these accounts is the greater of 7-3/4 percent or 100 basis points below the 4-year average constant maturity yield computed by the Treasury; maturities may range from 90 days to six years.

The flow of funds into short-term nondeposit investments remained strong last month. Assets of money market mutual funds increased about \$2.5 billion, close to the average pace for the first half of 1979, though less than the record monthly increase of \$4.2 billion in July. There was also renewed activity in short-term unit investment trusts and a pickup in noncompetitive tenders in Treasury bill auctions.

Preliminary estimates indicate that total loans and investments at commercial banks grew at a 10 percent annual rate in August, moderately below the strong July rate.<sup>1</sup> Business lending slowed somewhat during August, but remained about in line with the second quarter pace. Growth of real estate loans increased for the third consecutive month, while security loans outstanding fell. Holdings of U.S. government securities declined, in contrast to the increases in the preceding six months.

To finance their lending activities in August, banks relied heavily on managed liabilities to supplement the \$7 billion inflow of deposits subject to rate ceilings. Large-denomination time deposits increased \$2.2 billion for the month, while a new series for net balances due to directly related

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<sup>1/</sup> The bank credit figures reflect a new series compiled on an average-of-Wednesdays basis, with increased coverage of foreign-related institutions operating in the United States. The revisions lowered estimated growth in bank credit during the first half of this year to a 12-3/4 percent annual rate, compared to the 14 percent rate for the old series. The revision will be discussed in the Greenbook Supplement.

COMMERCIAL BANK CREDIT  
(Per cent changes at annual rates, based on seasonally adjusted data) 1/

	1978			1979				12 months ending Aug. <sup>e</sup>
	HI	QIII	QIV	QI <sup>p</sup>	QII <sup>p</sup>	July <sup>p</sup>	Aug. <sup>e</sup>	
1. Total loans and investments <u>2/</u>	13.2	13.3	12.7	13.2	11.9	13.2	10.1	13.4
2. Investments	3.6	6.4	-1.8	7.6	5.4	7.8	3.0	4.6
3. Treasury securities	-2.4	1.2	-21.1	2.1	3.8	6.3	-15.1	-4.7
4. Other securities	7.1	9.4	9.5	10.5	6.2	8.6	12.4	10.0
5. Total loans <u>2/</u>	17.1	15.9	18.2	15.1	14.2	15.0	12.5	16.7
6. Business loans <u>2/</u>	17.7	12.7	14.2	20.4	17.1	22.8	16.8	18.4
7. Security loans	8.8	-16.7	-23.3	33.0	40.0	31.2	-35.4	13.3
8. Real estate loans	18.6	20.4	17.7	14.6	13.0	15.4	16.3	16.5
9. Consumer loans	19.7	17.9	15.9	16.3	12.4	6.1	n.a.	n.a.
MEMORANDA:								
10. Commercial paper issued by nonfinancial firms <u>3/</u>	24.7	23.1	17.5	33.5	65.7	84.6	65.1	47.0
11. Sum of items 6 & 10	18.2	13.3	14.2	21.5	20.6	27.8	20.9	20.4
12. Finance company loans to business <u>4/</u>	13.2	5.5	25.0	16.6	17.7	26.4	n.a.	n.a.
13. Sum of items 11 and 12	17.3	11.8	16.3	20.6	20.0	27.6	n.a.	n.a.

e--estimated. p--preliminary. n.a.--not available.

1/ Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3/ Average of Wednesdays.

4/ Based on average of current and preceding ends of months.

foreign institutions indicates that these balances rose by an estimated \$3.6 billion, after a \$1.6 billion advance in July.<sup>1</sup> Domestic nondeposit funds in August approximately doubled their July increase as well.

#### Business Finance

Aggregate business borrowing has remained large in recent months, with continued relatively heavy reliance on short- and intermediate-term financing rather than on longer-term bond offerings. Banks have remained a major focus of business credit demands, and both large and small institutions reported strong growth of commercial and industrial loans in August. In informal contacts, officials of a number of large banks have indicated that a good deal of the recent loan growth has been associated with the financing of inventories and accounts receivable. Some bankers also cited diminished corporate liquidity as a reason for strong external financing demands.

According to the quarterly survey of lending officers at large banks, a substantial proportion of respondents perceived business loan demand to have strengthened in the three months ending August 15.<sup>2</sup> In addition, many bankers predicted greater loan demand during the next three months. In this environment, respondent banks, on balance, established firmer standards of creditworthiness and reduced their willingness to extend fixed rate credit, particularly for long-term loans. Since mid-August the prime rate has been raised 3/4 percentage point to a record 12-3/4 percent, as banks have responded to sharply increasing market yields.

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<sup>1/</sup> The revised series on nondeposit funds will be discussed in the Greenbook Supplement.

<sup>2/</sup> For further details about the August Senior Loan Officer Opinion Survey, see Appendix A.

Commercial paper issuance by nonfinancial companies totaled \$1.4 billion in August (monthly average basis), approaching the near-record pace of July. Dealers reported that firms, in addition to financing involuntary inventory accumulation, were borrowing well ahead of September tax and dividend dates in order to beat possible rate increases. While net issuance of finance company paper fell off markedly because of the paydown of Chrysler Financial obligations, net sales of bank-related paper continued strong.<sup>1</sup> Quality spreads widened slightly over the month; however, dealers attributed this to competition from other short-term investments rather than to risk considerations, per se, and noted that such a development is common during periods when market rates generally are rising rapidly.

Over the first seven months of 1979, the substantial growth in nonfinancial commercial paper and business loans at both commercial banks and finance companies was accompanied by an increase of about \$3-1/2 billion in bankers acceptances held by investors other than commercial banks. (Bank holdings of acceptances, which are included in business loans, increased by \$1-1/2 billion.) Acceptances represent for many businesses an alternative source of short-term financing at a cost below the commercial bank prime rate. The gain in acceptances issued this year primarily reflects increased use of these bills to finance U.S. exports, imports, and third-country trade. Several large member banks appear to be reaching their limits on acceptance

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<sup>1/</sup> Finance company business loans expanded rapidly in July (the most recent month for which data are available). A large increase in wholesale auto loans, which generally finance car dealer inventories, accounted for the major share of the overall \$1.5 billion gain.

issuance, defined as 100 percent of capital and surplus. Nevertheless, this probably will not by itself constrain further growth of acceptances, as many other large members have not reached their legal limits and many large non-member issuers--including agencies of foreign banks--are not subject to such legal limits.

Gross public offerings of corporate bonds increased somewhat in August on a seasonally adjusted basis. Offerings by nonfinancial corporations rose from the unusually low July total, but remained relatively light at \$1.25 billion (not seasonally adjusted). Public offerings of bonds by financial corporations decreased in August. Although mortgage-backed bond issues by thrift institutions increased, longer-term debt financings by bank holding companies were minimal, and offerings by finance companies moderated somewhat.

Takedowns of privately placed corporate bonds--a principal source of long-term debt financing for smaller and lower-rated industrial firms--are estimated to have been somewhat below 1978's strong pace thus far this year; moreover, bond commitments outstanding at life insurance companies--the major investors in privately placed bonds--recently reached their lowest level in four years (see chart on page III-11). However, life insurers have provided nonfinancial companies with an increased amount of long-term credit through nonresidential mortgages, and their volume of such commitments outstanding was at a record level at midyear. Although policy loan demand at life insurance companies has strengthened considerably this year, it has not bulked as large relative to total investable funds as in past periods of high market interest rates. The higher loan rates specified in policies in recent years and the fact that many low-rate loans taken out earlier were never repaid

GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES  
(Monthly totals or monthly averages, in millions of dollars)

	1978	1979					
	Year	QI	QII <sup>p/</sup>	July <sup>p/</sup>	Aug. <sup>p/</sup>	Sept. <sup>f/</sup>	Oct. <sup>f/</sup>
<u>Seasonally adjusted</u>							
Corporate securities--total	3,936	3,720	4,280	3,600	4,400	3,900	4,000
Publicly offered bonds	1,651	1,360	2,680	1,800	2,400	2,300	2,300
Privately placed bonds	1,422	1,670	1,150	1,000	1,000	1,000	1,000
Stocks	863	690	450	800	1,000	600	700
<u>Not seasonally adjusted</u>							
Publicly offered bonds	1,651	1,473	2,833	1,950	1,900	2,000	2,500
By quality <u>1/</u>							
Aaa and Aa	853	950	1,475	1,450	1,325	--	--
Less than Aa <u>2/</u>	798	523	1,358	500	575	--	--
By type of borrower							
Utility	610	605	783	100	500	--	--
Industrial <u>3/</u>	526	378	842	700	750	--	--
Financial	515	490	1,208	1,150	650	--	--
Foreign securities--total <sup>4/</sup>	504	513	274	348	200	750	300

1/ Bonds categorized according to Moody's bond ratings.

2/ Includes issues not rated by Moody's.

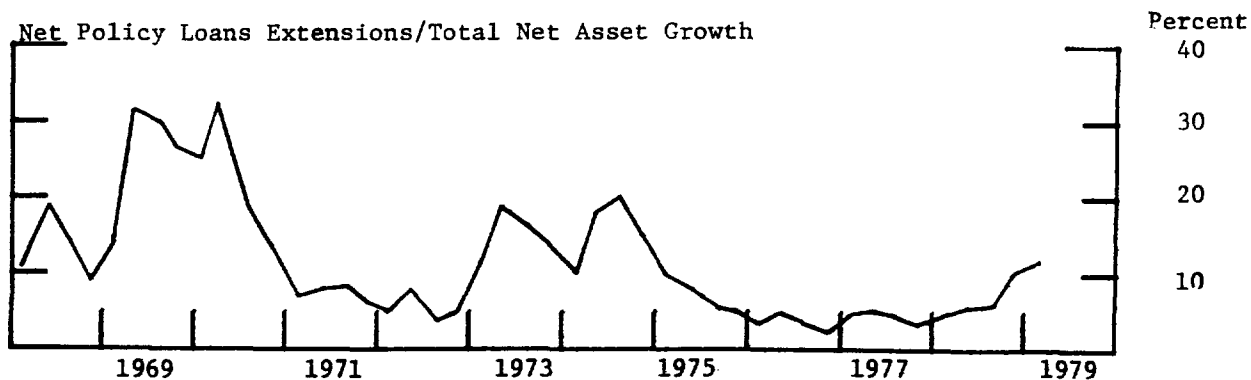
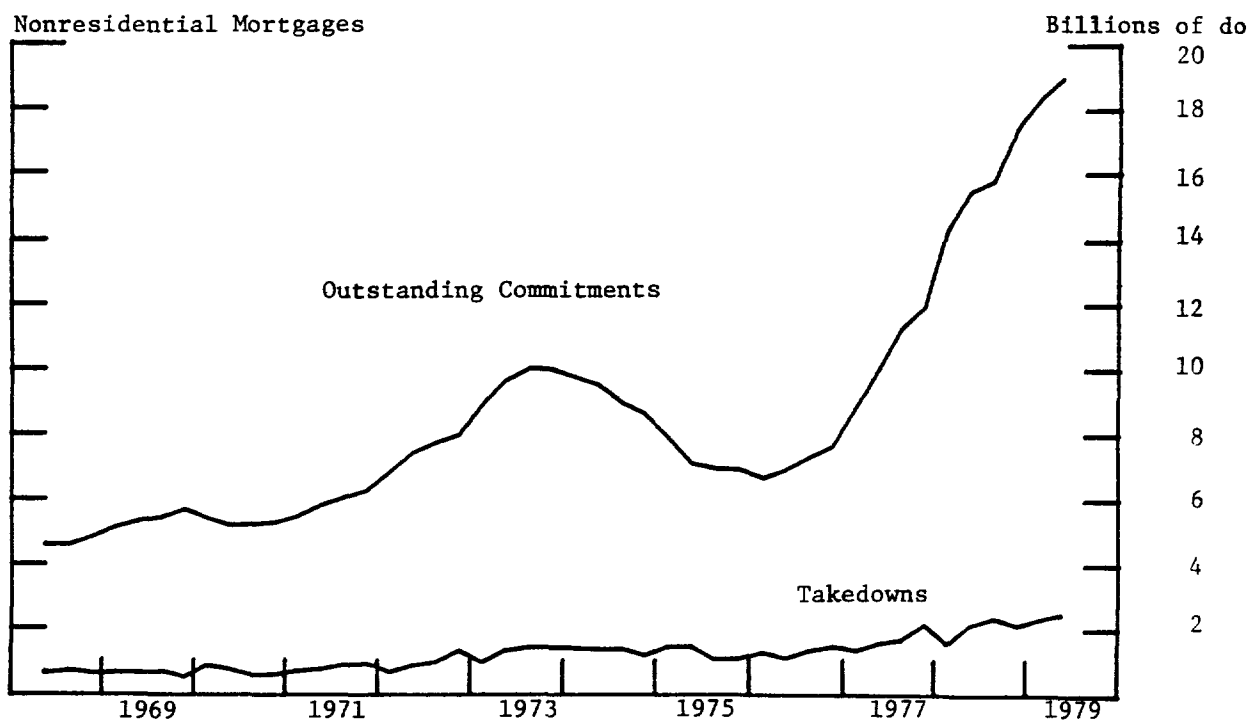
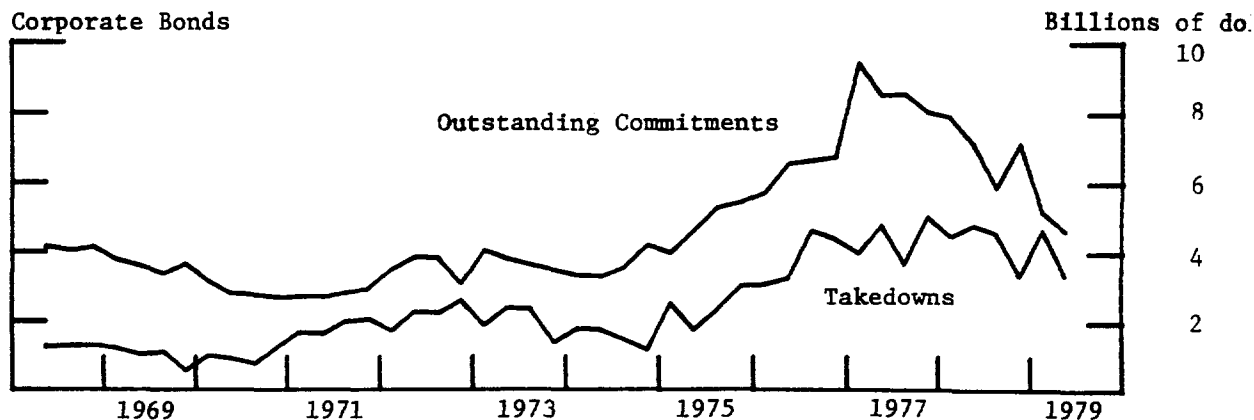
3/ Includes equipment trust certificates.

4/ Includes both publicly offered and privately placed issues.

p/ Preliminary.

f/ Forecast.

Outstanding Commitment and Takedown Activity  
by Life Insurance Companies 1/  
(Quarterly, seasonally adjusted)



1/ Reporting companies account for nearly 80 percent of U.S. life insurance company assets.

have helped to restrain policy loan growth. The resulting absence of cash flow pressure at life insurers has been one factor contributing to the sustained availability of long-term funds to lower-rated firms and to the maintenance of narrow risk premiums among bond quality categories.

Stock prices have changed little on balance since the last FOMC meeting in the face of negative economic news and the upward movement in interest rates. Despite some decline most recently, the AMEX and NASDAQ composite indexes remain near record highs, while most major indexes of NYSE-listed securities are near their highest levels since early 1973.<sup>1</sup> This relative strength reportedly reflects the view that the expected recession will be relatively mild and could set the stage for more sustainable, less inflationary growth in the longer run. The August rally in stock prices was accompanied by the largest seasonally adjusted volume of stock offerings in almost a year. Although public utilities continued to account for a majority of common and preferred stock offerings, several larger industrial concerns also had new equity issues.

#### Government Debt Markets

Since the last FOMC meeting, the Treasury has raised more than \$5 billion in new money, with \$2 billion of this sum in the form of cash management bills that were sold to bridge the tax date and are due to mature later this month. However, the remainder of the borrowing was undertaken in anticipation of large fourth quarter needs, which include the financing of a sizable

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<sup>1/</sup> The Dow Jones Industrial Average has climbed 8 percent thus far this year, but the index is currently about 4 percent below its level in mid-September 1978.



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

	1978	1979					
	Year	QI	QII	July <sup>e/</sup>	Aug. <sup>e/</sup>	Sept. <sup>f/</sup>	Oct. <sup>f/</sup>
<u>Seasonally adjusted</u>							
State and local government securities, gross offerings							
Total	5,851	4,930	5,089	5,317	5,600	6,200	4,850
Long-term	4,042	3,219	3,360	3,378	4,000	4,300	3,450
Short-term	1,809	1,711	1,729	1,939	1,600	1,900	1,400
U.S. government securities, net offerings							
U.S. Treasury <sup>1/</sup>	2,337	1,732	4,824	2,535	3,495	-980	350
Sponsored agencies	1,930	2,608	1,779	2,182	-146	1,187	1,834
<u>Not seasonally adjusted</u>							
State and local government securities, gross offerings							
Total	5,851	4,847	5,876	4,834	5,200	6,100	4,400
Long-term	4,042	3,352	3,608	3,287	3,900	3,700	3,400
Short-term	1,809	1,495	2,268	1,547	1,300	2,400	1,000
U.S. government securities, net offerings							
U.S. Treasury <sup>1/</sup>	2,337	2,998	933	950	6,940	-1,400	2,500
Sponsored agencies	1,930	2,120	2,009	2,516	288	2,148	1,861

<sup>1/</sup> Marketable issues only.

<sup>e/</sup> Estimated.

<sup>f/</sup> Forecasted.

budget deficit. \$2.5 billion of 4-year, 8-month notes were sold in late August, and \$200 million of new money has been raised in each of the regular weekly bill auctions since mid-August. The volume of 3- and 6-month bills outstanding had been permitted to decline by \$2.5 billion over the earlier months of the year. The System's Open Market Account acquired a substantial volume of Treasury bills in late August and early September, purchasing about \$1.3 billion from foreign official institutions.

The three major federally sponsored credit agencies are estimated to have reduced outstanding debt by about \$150 million in August, on a seasonally adjusted offerings basis. The Farm Credit Banks have raised an estimated \$550 million, in line with the monthly average so far in 1979, while the Federal Home Loan Banks raised only \$300 million and the Federal National Mortgage Association reduced its outstanding debt by close to \$1 billion. The contraction in FNMA debt probably reflected low anticipated financing needs, but these are likely to be revised upward in view of recent market developments, such as the sharply increased activity in the biweekly FNMA commitment auctions.

Gross offerings of state and local government bonds increased to about \$4.0 billion in August, seasonally adjusted, from \$3.4 billion during the previous month. The increase was due to a larger volume of bonds issued for new capital purposes, with housing-related revenue bonds representing one-third of the total. Nearly 90 percent of the housing bonds issued during August were for single-family mortgage programs. These bonds were part of the estimated \$3.2 billion of mortgage revenue bonds that were postponed earlier this year when legislation was introduced to curtail home mortgage

financing by local borrowing authorities. Although the Congress has yet to act, issuers responded to indications that the final legislation will exempt the formerly postponed issues from any new restrictions.

### Mortgage Markets

Mortgage market conditions have continued to tighten in recent weeks. Field reports suggest that higher mortgage rates have deterred some borrowers, although the volume of mortgage lending apparently has been well maintained thus far.

Mortgage commitments outstanding at S&Ls changed little in July, but remained quite large relative to cash flows from deposits and loan repayments.<sup>1</sup> Deepening discounts on FHA/VA home mortgages bearing the current 10 percent interest rate ceiling apparently have hampered lending in this sector of the market, and the rising cost of short-term warehousing credit may be constraining loan originations by mortgage companies. On the other hand, the relatively high yields prevailing on conventional loans apparently have continued to encourage diversified institutions to invest more heavily in residential mortgages; total real estate lending at commercial banks picked up further in August, and residential mortgage commitments outstanding at life insurance companies were at a record level at midyear (latest data available). Also, state and local government mortgage revenue bond programs, offering below-market interest rates to qualified borrowers, have accounted for considerable origination activity in some localities.

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<sup>1</sup>/ S&L mortgage lending activity continues to vary widely by geographic area, with commitment activity weakest in the Midwest and strongest in areas of the South and the far West.

Average interest rates on new commitments for 80 percent 30-year conventional home loans at sampled S&Ls have risen somewhat in recent weeks to a record 11.20 percent after more than a month of stability. Meanwhile, the proportion of these institutions reporting funds in short supply has crept back up to around 80 percent following a slight improvement during July. In the West, average rates have returned to 11-3/4 percent following a reduction to 11-1/2 percent during mid-summer, and several large associations in California have gone to 12 percent.<sup>1</sup> In national secondary mortgage markets, yields on GNMA-guaranteed securities and in the FNMA commitment auctions have moved up sharply since the last FOMC meeting, and the volume of offerings to FNMA has risen substantially, reflecting heightened concern among mortgage bankers about the possibility of future rate increases.

State usury ceilings have continued to constrain conventional home mortgage lending to some degree despite recent adjustments. Since late last year about a dozen states have eliminated binding ceilings or have tied maximum rates to indexes of various market yields. Nevertheless, New York and New Jersey, along with four smaller states, still have ceilings fixed or capped below 11 percent. Moreover, the unusually wide spreads between conventional mortgage rates and intermediate- and long-term Treasury yields have caused

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<sup>1</sup>/ Variable-rate home mortgages continue to be originated at the same interest rates as conventional fixed-rate home mortgages at most major S&Ls and commercial banks in California. Rate increases on many outstanding variable-rate mortgages appear to be in store, as the cost-of-funds index used semiannually by banks and state-chartered thrift institutions in that state to adjust rates on outstanding VRMs was 61 basis points higher in August than six months earlier. Actual adjustments to rates on outstanding VRMs are subject to a number of limitations; in particular, increases may not exceed 25 basis points in any semiannual period.

III-17

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

Period	Conventional home mortgages			
	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread (basis points) <sup>1/</sup>	Percent of S&Ls with mortgage funds in short supply <sup>2/</sup>
1979--High	11.20	--	+172	80
Low	10.38	--	+67	54
1979--Apr.	10.50	+ 7	+76	59
May	10.69	+19	+85	75
June	11.04	+35	+154	79
July 6	11.13	+ 3	+172	78
13	11.08	- 5	+158	74
20	11.08	0	+150	74
27	11.08	0	+148	74
Aug. 3	11.08	0	+151	76
10	11.08	0	+164	74
17	11.08	0	+163	76
24	11.10	+2	+163	80
31	11.13	+3	+159	78
Sept. 7	11.20	+7	+150	78

<sup>1/</sup> Average mortgage rate minus average yield on recently offered Aaa utility bonds.

<sup>2/</sup> Percent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments						Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery <sup>2/</sup>
	Conventional			Government-underwritten			
	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	
	Offered	Accepted		Offered	Accepted		
1979--High	290	172	11.67	735	308	10.92	10.36
Low	36	28	10.92	37	19	10.42	9.51
1979--July 2							9.69
9	36	28	11.54	37	19	10.66	9.69
16							9.78
23	58	42	11.51	97	50	10.65	9.80
30							9.88
Aug. 6	107	89	11.50	56	28	10.64	9.82
13							9.88
20	139	95	11.53	107	55	10.69	9.90
27							10.03
Sept. 4	290	172	11.67	614	285	10.92	10.14
10							10.36

<sup>1/</sup> Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.

floating-rate usury limits to be set below going mortgage yields in several states, including Illinois and Texas.

#### Consumer Credit

Consumer installment credit outstanding grew at a 10 percent annual rate in July, about the same as the downward revised June figure. This represents a substantial moderation from the 15 percent rate of advance earlier, and the nearly 19 percent growth in the latter half of 1978. A further decline in net lending on automobiles and a sharp deceleration in expansion of bank revolving credit contributed to the slow growth in July.

Commercial banks accounted for an unusually low share (one-fourth) of the total net installment credit advanced to consumers during July. This contraction of bank participation is consistent with the mid-August Survey of Senior Bank Loan Officer Opinion, which indicated that the attitude of sample banks toward extensions of consumer installment credit to individuals continued to become slightly less accommodating. Finance rates on commercial bank consumer installment loans generally continued to rise through August, reaching a level 10 to 30 basis points higher than six months earlier.

CONSUMER INSTALLMENT CREDIT <sup>1/</sup>

	1976	1977	1978	1979			
				QI(r)	QII(r)	June(r)	July
<b>Total</b>							
Change in outstandings							
Billions of dollars	21.7	35.3	44.8	41.0	39.9	30.7	29.3
Percent	12.6	18.2	19.4	15.0	14.1	10.6	10.0
Bank share (percent)	49.8	52.9	53.1	43.1	47.8	38.5	27.1
Extensions							
Billions of dollars	211.0	254.1	298.3	314.1	324.2	313.7	322.2
Bank share (percent)	46.1	46.4	47.8	47.1	47.9	47.0	45.8
Liquidations							
Billions of dollars	189.4	218.8	253.5	273.1	284.3	283.0	292.9
Ratio to disposable income	16.0	16.8	17.5	17.4	17.7	17.6	18.0
<b>Automobile Credit</b>							
Change in outstandings							
Billions of dollars	10.5	15.2	19.6	18.9	13.2	8.3	7.4
Percent	18.3	22.5	23.6	18.5	12.3	7.5	6.7
Extensions							
Billions of dollars	63.7	75.6	89.0	92.4	93.7	86.1	89.4

<sup>1/</sup> Quarterly and monthly dollar figures and related percent changes are seasonally adjusted annual rates.

(r) = revised.

## INTERNATIONAL DEVELOPMENTS

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Foreign exchange markets. For most of the period since the last green book on August 8, the value of the dollar in terms of major foreign currencies fluctuated in a narrow range. The chart depicting the weighted-average value of the dollar shows this pattern

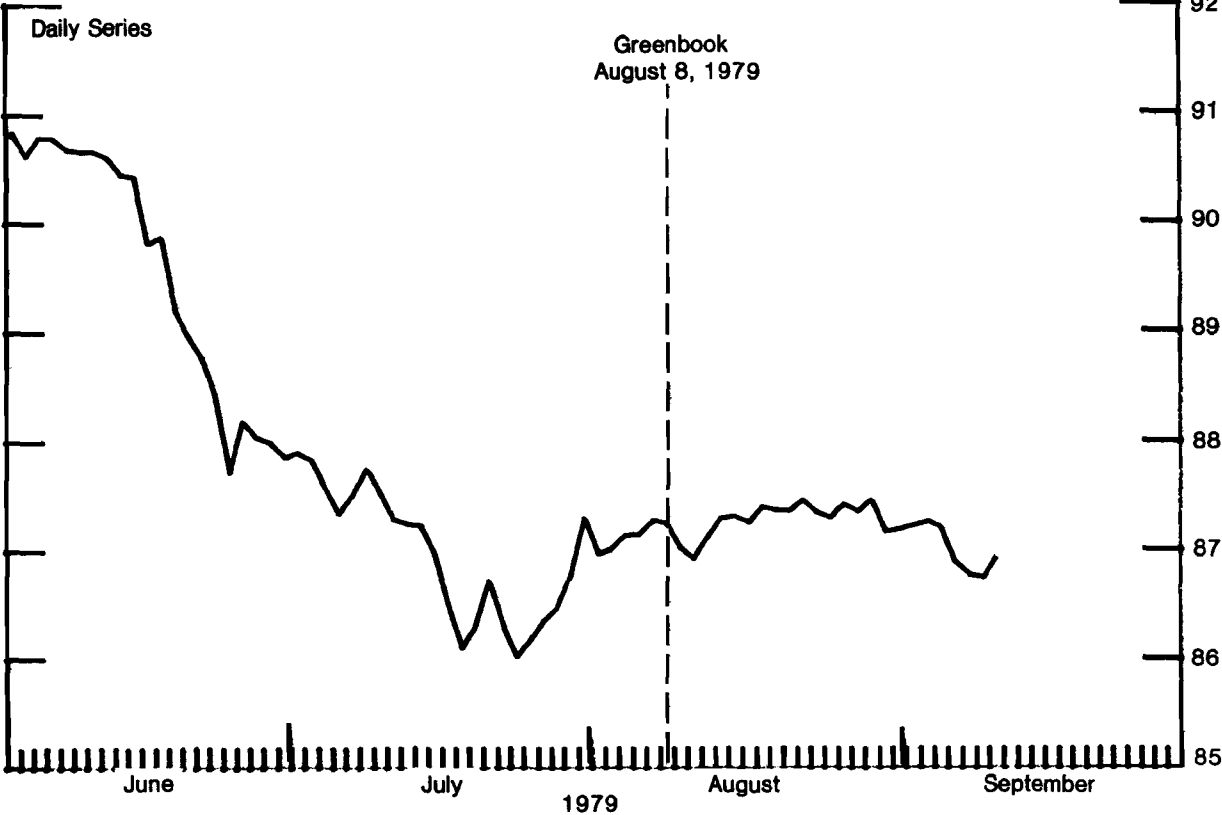
Just before Labor Day, however, an increase in the volume of foreign official dollar sales brought the dollar's value under downward pressure, which continued into early September and was resisted by increased U.S. intervention purchases of dollars.

In the early part of the review period, market participants took favorable note of U.S. moves to tighten financial conditions, including increases in both the discount and federal funds rates. More recently, however, attention has shifted to German moves increase the restrictiveness of monetary policy. German short-term interest rates have risen almost 100 basis points over the review period. The mark has, consequently, come into strong demand against currencies of other European countries, where comparable tightening has not been apparent. The mark has also been under upward pressure against the dollar, although the increase in U.S. short-term interest rates since August 8 has at least matched that in German rates.



WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR

March 1973 = 100



In contrast to the mark, the yen has been under downward pressure against the dollar for much of the review period. Japan's trade and current-account surpluses have diminished at a very fast rate this year, and the country has been the target of a number of actual or rumored cut-backs in oil supplies from major producers.

Over the entire period since August 8, the price of gold has risen 15-to-20 percent, not only in terms of the dollar but also against all other major currencies. That the increase in the gold price has been fairly uniform from currency to currency is evidence of market participants' concern about prospects for rising inflation rates in many industrialized countries.

U.S. authorities bought about \$100 million against marks.

During the last week of August and the first week and a half of September,

U.S. authorities' intervention support for the dollar was  
in the form of net mark sales of nearly \$1 billion equivalent, split about  
equally between Treasury and System accounts.

U.S. bank lending abroad. In the first half of 1979, the growth of U.S. banks' external claims, particularly on countries other than international financial centers, gave further evidence of a slowing trend apparent since 1977. In part, the deceleration in U.S. bank lending in the first half of 1979 reflects some slowing in the pace of gross medium and long term borrowing in international capital markets from all banks this year. In addition, the slowdown in U.S. bank lending reflects a sluggish underlying trend resulting from the strong growth in U.S. domestic credit demands and increased competition from banks in Western Europe and Japan, where loan demand in domestic credit markets over the past two years have been weaker than in the United States as a result of more restrained rates of economic growth. The increasingly intense competition has been reflected in a rapid decline in interest spreads on international loans since the beginning of 1978, and has discouraged U.S. banks from participating in a number of syndicated Eurocurrency credits with exceptionally low spreads relative to perceived risks. However, some U.S. banks reportedly have reassessed their behavior and recently have begun to manage credits at low spreads that previously had been avoided.

U.S. bank claims on countries other than international financial centers increased by only \$2.9 billion in the first half of this year, or less than one third of the increase in the last half of 1978. This increase was concentrated in the non-oil developing countries, and was spread among a relatively large number of individual countries. Particularly significant increases were registered by Korea,

U.S. Bank Claims on Foreigners<sup>1/</sup>  
(in billions of dollars)

	Outstanding					Incremental	
	Old Series <sup>2/</sup>		New Series <sup>2/</sup>			Increase	
	Dec. '76	Dec. '77	June '78	Dec. '78	June '79	2nd H '78	1st H '79
I. <u>Countries Other than International Financial Centers</u>	<u>76.0</u>	<u>92.7</u>	<u>93.7</u>	<u>101.3</u>	<u>104.2</u>	<u>7.4</u>	<u>2.9</u>
<u>Smaller developed countries</u>	<u>15.1</u>	<u>18.6</u>	<u>19.3</u>	<u>19.2</u>	<u>18.8</u>	<u>-.1</u>	<u>-.4</u>
Denmark	1.0	1.6	1.7	2.0	2.0	.3	--
Greece	1.7	2.2	2.3	2.3	2.2	--	-.1
Norway	1.5	1.9	2.1	2.1	2.1	--	--
Spain	2.8	3.6	3.6	3.4	3.0	-.2	-.4
South Africa	2.2	2.4	2.4	2.0	1.8	-.4	-.2
Other	5.9	6.9	7.2	7.4	7.7	.2	.3
<u>Oil-exporting countries</u>	<u>12.6</u>	<u>17.6</u>	<u>19.1</u>	<u>22.8</u>	<u>22.6</u>	<u>3.7</u>	<u>-.2</u>
Ecuador	.7	1.1	1.4	1.6	1.6	.2	--
Venezuela	4.1	5.5	5.6	7.2	7.5	1.6	.3
Indonesia	2.2	2.2	1.9	2.0	1.9	.1	-.1
Middle East countries	4.2	6.9	8.3	9.5	9.0	1.2	-.5
African countries	1.4	1.9	1.9	2.5	2.5	.6	.1
<u>Non-oil developing countries</u>	<u>43.1</u>	<u>50.0</u>	<u>48.9</u>	<u>52.4</u>	<u>56.1</u>	<u>3.5</u>	<u>3.7</u>
Argentina	1.9	2.9	3.0	3.0	3.5	--	.5
Brazil	11.1	12.7	13.3	14.9	15.0	1.6	.1
Mexico	11.7	11.9	11.0	10.8	11.0	-.2	.2
Other Latin America	6.6	6.8	7.7	8.3	8.1	.6	-.2
Korea	3.1	3.9	3.6	3.9	5.0	.3	1.1
Philippines	2.2	2.5	2.7	2.8	3.7	.1	.9
Taiwan	2.3	3.0	2.4	2.9	3.3	.5	.4
Other Asia, Africa	4.2	6.2	5.2	5.8	6.5	.8	.7
<u>Eastern Europe</u>	<u>5.2</u>	<u>6.5</u>	<u>6.4</u>	<u>6.9</u>	<u>6.7</u>	<u>.5</u>	<u>-.2</u>
U.S.S.R.	1.5	1.6	1.4	1.3	.9	-.1	-.4
Yugoslavia	.8	1.1	1.3	1.5	1.7	.2	.2
Other	2.8	3.8	3.7	4.1	4.1	.4	--
II. <u>International Financial Centers<sup>3/</sup></u>	<u>126.3</u>	<u>141.4</u>	<u>143.9</u>	<u>154.9</u>	<u>159.5</u>	<u>11.0</u>	<u>4.6</u>
III. <u>Miscellaneous &amp; Unallocated</u>	<u>5.4</u>	<u>5.3</u>	<u>8.1</u>	<u>9.1</u>	<u>9.9</u>	<u>1.0</u>	<u>.8</u>
IV. <u>Grand Total</u>	<u>207.7</u>	<u>239.4</u>	<u>245.7</u>	<u>265.3</u>	<u>273.6</u>	<u>19.6</u>	<u>8.3</u>

<sup>1/</sup> Including both domestic offices and foreign branches; excluding U.S. agencies and branches of foreign banks and intrabank claims.

<sup>2/</sup> The old and new series differ as follows: 1) the old series includes, while the new series excludes, customer claims and foreign-currency claims reported by domestic offices, amounting in total to \$9.1 billion in June 1978; 2) the number of foreign branches reporting under the new series is less than under the old series; 3) new reporting regulations for foreign branches shifted more claims into "unallocated" in the new series.

<sup>3/</sup> G-10 countries, Switzerland, and offshore banking centers.

the Philippines and Argentina. The further drop in interest spreads, to their lowest levels in five years, may have encouraged non-oil developing countries to maintain their pace of borrowing from international banks and in some cases this borrowing has been added to already substantial levels of reserves.

In contrast, U.S. bank claims on Eastern Europe, oil-exporting countries, and smaller developed countries have experienced absolute declines since the end of 1978. Especially notable were the declines in claims on the U.S.S.R., Middle Eastern oil-exporting countries, South Africa, and Spain. U.S. bank claims on the latter two countries have been declining since mid-1978.

Claims on international financial centers (G-10 countries, Switzerland, and offshore banking centers) increased by \$4.6 billion in the first six months of this year, about two-fifths the increase in the last half of 1978. As was true in 1978, claims on the international financial centers continued to expand faster than other claims, reflecting to a large extent the large volume of interbank money market activity conducted by banking offices in these countries.

U.S. International Transactions. The U.S. merchandise trade deficit in July was \$17.4 billion at an annual rate (international accounts basis), about half the size of the June deficit and also substantially lower than the first or second quarter averages.

Exports in July continued the strong rise of the previous several months. Much of the recent increase was in agricultural exports, which reached a record \$38.7 billion annual rate in July. Poor crops in the U.S.S.R. and Eastern Europe have resulted in increased U.S. shipments of wheat and corn to the U.S.S.R. and have contributed to higher agricultural export prices. U.S. agricultural exports are expected to remain high through next spring.

Nonagricultural exports in July continued the steady rise that began early last year; about half of the increase in value so far this year is attributable to rising prices. Much of this year's export growth was in industrial supplies, particularly nonferrous metals and chemicals.

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

	1978 :	1978		1 9 7 9			
	<u>Year</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q<sup>r</sup></u>	<u>June<sup>r*</sup></u>	<u>July<sup>*</sup></u>
<u>EXPORTS</u>	<u>141.9</u>	<u>146.0</u>	<u>157.3</u>	<u>165.4</u>	<u>171.5</u>	<u>179.4</u>	<u>187.8</u>
Agric.	29.9	31.7	31.3	30.6	30.8	33.1	38.7
Nonagric.	112.0	114.2	126.0	134.8	140.7	146.3	149.1
<u>IMPORTS</u>	<u>176.1</u>	<u>178.0</u>	<u>182.7</u>	<u>189.8</u>	<u>201.6</u>	<u>210.4</u>	<u>205.2</u>
Petroleum	42.3	43.5	43.2	46.6	51.6	55.0	61.1
Nonpetroleum	133.8	134.5	139.5	143.2	150.0	155.4	144.1
<u>BALANCE</u>	<u>-34.2</u>	<u>-32.0</u>	<u>-25.5</u>	<u>-24.4</u>	<u>-30.1</u>	<u>-31.0</u>	<u>-17.4</u>

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

<sup>r</sup>/ Revised

<sup>\*</sup>/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.

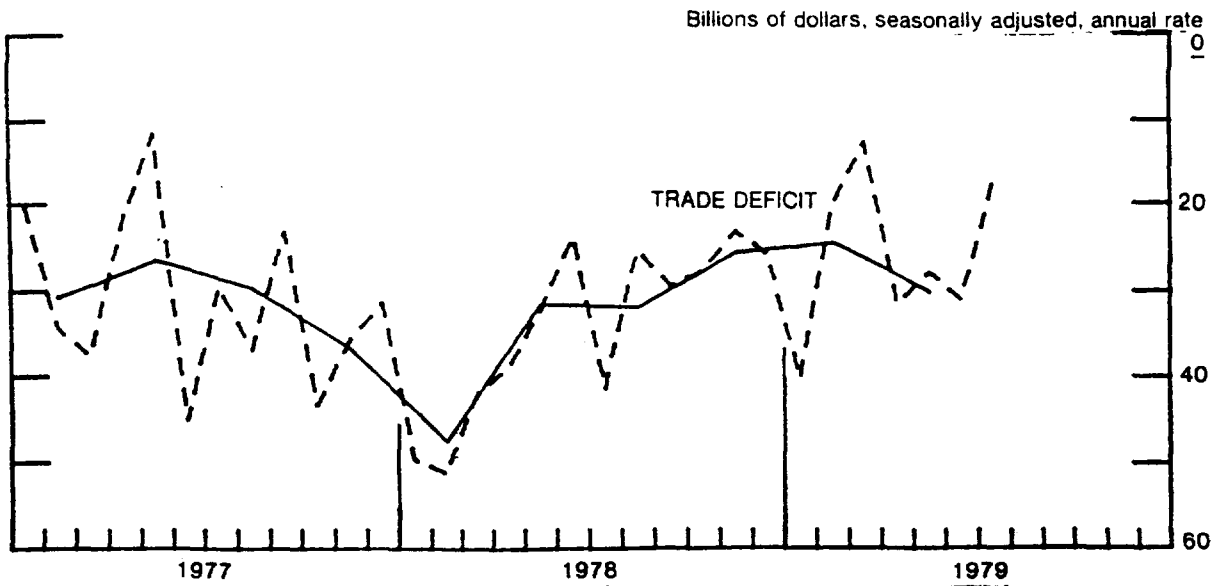
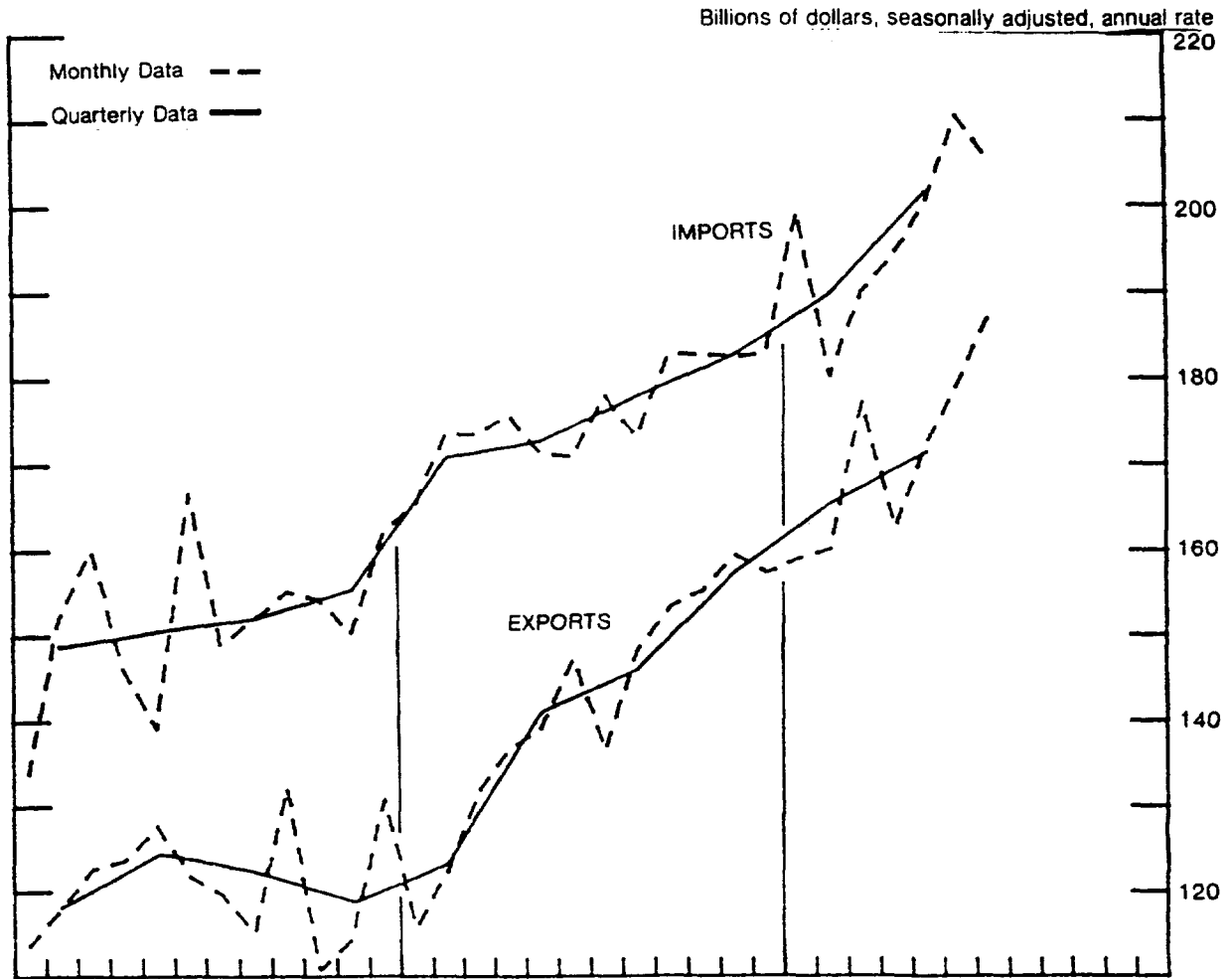
Machinery exports rose more gradually, by less than 10 per cent from December to July. Civilian aircraft exports have been fairly strong since last fall, but in July export deliveries nearly doubled the June rate.

The value of oil imports rose sharply in July reaching \$61.1 billion at an annual rate. All of the increase from June was in price; imported oil averaged \$19.45 per barrel in July compared with \$17.57 per barrel in June and an average of \$16.31 per barrel in the second quarter. These import unit values already reflect about 75 per cent of the increase in price expected this year. The volume of imported oil declined slightly in July to 8.4 million barrels per day compared with an average for both June and the second quarter of 8.7 million barrels per day. Despite this reduction in the volume of imports, U.S. petroleum stocks of crude and refined products continued to increase in July, as they have since the end of March. Stocks are now above the level of a year ago.

Non-oil imports declined sharply in July from the June rate and also from the second-quarter rate. The decline was spread over most major commodity categories, particularly industrial supplies, capital goods, and foreign cars. Even before July, the volume of non-oil imports had stopped growing -- the volumes in the first and second quarters were little changed from import levels in late 1978. This reduction in the growth of import volume was probably due to the continuing impact of earlier exchange rate changes, and to the slowdown in U.S. economic activity. Non-oil import prices, however, have risen sharply



### U.S. Merchandise Trade International Accounts Basis



this year, 9 per cent from the fourth quarter of 1978 to the second quarter of 1979.

Despite the improvement in the trade balance, the pressure on the dollar in exchange markets continued in July. The reserve holdings of the G-10 countries and Switzerland in the United States increased (net) by \$3.5 billion.

. In addition, the United States sold about \$1.2 billion equivalent of DM out of Treasury balances in support of the dollar.

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OPEC holdings of U.S. securities and bank liabilities rose by \$900 million in July. In August (through the 29th) OPEC holdings at the FRBNY alone rose by more than \$1 billion, largely in Treasury bills. This increase in OPEC assets probably reflected higher receipts due to the increase in petroleum prices and the shortening of the time period between shipment and payment granted to oil companies.

In contrast to these official net inflows, bank-reported private capital transactions showed a net private capital outflow of \$1.8 billion in July. This net outflow was associated with a surge in

RESTRICTED

U.S. International Transactions  
(in millions of dollars; receipts, or increase in liabilities, +)

	1977	1978	1978		1979		1979		
	Year	Year	Q3	Q4	Q1	Q2	May	June	July
1. Trade balance <sup>1/</sup>	-30,873	-34,187	-8,012	-6,369	-6,098	-7,532	-2,321	-2,584	-1,446
2. Merchandise exports	120,816	141,884	36,491	39,315	41,350	42,870	14,371	14,953	15,652
3. Merchandise imports	-151,689	-176,071	-44,503	-45,684	-47,448	-50,402	-16,692	-17,537	-17,098
4. Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-3,909	-13,719	3,562	-13,568	13,753	5,955	5,857	-1,905	-1,750
Through interbank transactions with									
5. a) Own offices in foreign countries	-2,718	5,616	7,173	-2,880	14,452	7,553	5,456	4,367	-1,562
6. b) Unaffiliated banking offices in foreign countries	-2,204	-11,400	-1,425	-6,628	742	-1,161	463	-5,745	2,210
Through nonbank transactions									
7. a) Claims on nonbanks in foreign countries (increase,-)	-424	-9,435	-2,642	-4,836	-984	-1,842	-721	-986	-2,062
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,501	456	776	-458	1,405	659	459	-335
9. Private securities transactions, net (excl. U.S. Treas. Oblig.)	-3,068	-783	-114	-108	-564	-96	242	-557	-468
10. Foreign net purchases of U.S. corp. bonds	1,112	1,583	378	513	-11	269	*	92	-68
11. Foreign net purchases of U.S. corp. stocks	1,326	1,124	-17	297	423	274	171	54	-2
12. U.S. net purchases (-) of foreign securities	-5,506	-3,490	-475	-918	-976	-639	71	-703	-398
13. Foreign net purchases of U.S. Treasury obligations <sup>2/</sup>	534	2,264	-1,069	1,551	2,583	-239	-1,208	-276	1,386
14. Change in foreign official reserve assets in U.S. (increase +)	35,448	31,243	4,700	16,728	-8,696	-9,663	-6,769	3,263	3,719
By Area									
15. G-10 countries and Switzerland	29,414	30,200	5,151	15,570	-7,191	-10,716	-6,922	3,287	3,508
16. OPEC	5,743	-1,290	-1,475	956	-1,972	775	223	-607	882
17. All other countries	291	2,333	1,024	202	467	278	-70	583	-671
By Type									
18. U.S. Treasury securities	30,266	23,836	3,167	13,348	-8,085	-12,731	-7,862	3,085	3,334
19. Other <sup>3/</sup>	5,182	7,407	1,533	3,380	-611	3,068	1,093	178	385
20. Change in U.S. reserve assets (increase -)	-237	662	14	200	-3,008 <sup>4/</sup>	446	-827	1,018	1,223
21. All other transactions and statistical discrepancy	2,105	14,520	919	1,566	2,030	11,129	5,026	1,041	-2,664
MEMO: Current Account (bil. \$. seasonally adj., annual rates)	-14.1	-13.9	-12.9	-1.3	.6	n.a.	n.a.	n.a.	n.a.

<sup>1/</sup> International accounts basis, seasonally adjusted.<sup>2/</sup> Includes U.S. Treasury notes publicly issued to private foreign residents.<sup>3/</sup> Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.<sup>4/</sup> Includes \$1,103 million of newly allocated SDR's.<sup>5/</sup> More than \$500,000.

September 12, 1979

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

loans to nonbank borrowers in Latin American (\$1.1 billion) and Japan (\$500 million). Also the World Bank shifted holdings from money-market placements with U.S. banks toward Treasury bills. This produced compensating movements in bank-reported flows and foreign net purchases of U.S. Treasury securities. The June and July bank-reported net outflows contrasted with net inflows of \$22 billion reported for the first five months of the year.

Although banks reported a net private capital outflow overall in July, the head offices of member banks did borrow some additional funds from their own foreign branches. At the same time, these foreign branches have continued to receive additional deposits from U.S. non-bank residents<sup>\*/</sup>. In the first seven months of 1979, borrowing from own branches increased approximately \$17 billion, while U.S. residents' deposits in these branches increased between \$11 billion and \$13 billion. This range reflects uncertainty about whether Euro-CD purchases by money market mutual funds are reported as part of U.S. residents' deposits. In August, the head offices of member banks raised an additional \$2.6 billion through their foreign branches.<sup>\*\*/</sup>

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<sup>\*/</sup> These deposits are not included in the net private capital outflow reported by U.S. banks.

<sup>\*\*/</sup> Estimated borrowing by all U.S. banking offices equalled \$3.3 billion in August.

Changes in Member Banks' Borrowings from Own Branches  
and in Deposits of U.S. Non-bank Residents in these Branches  
(billions of dollars)

1979	Reported U.S. Residents' Deposits in Foreign Branches of U.S. Banks	Euro-CD's Purchased by Money Market Mutual Funds	Head-Office Borrowings from Own Branches
IQ	5.4	.9	6.2
IIQ	3.8	1.2	10.3
July	1.4	.5	.4
August	n.a.	.6	2.6

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Foreign Economic Developments. Recent data indicate that economic activity in Japan and Germany was strong in the second quarter. Japanese GNP increased at an annual rate of more than 6-1/2 percent in the first half year. German figures confirm underlying strength that was distorted in the first quarter due to industrial disputes and weather. British data indicate a recovery from the strike-depressed activity levels prevailing in the first quarter. French activity was weak in the first quarter and shows little improvement in the second quarter. In Italy second-quarter activity was weak, but industrial disputes distort the underlying picture. Canadian real GNP declined 2.8 percent (s.a.a.r.) in the second quarter.

In several countries sharp price rises, often related to oil or special factors, have served to emphasize the continuing inflation. The new value added tax in the United Kingdom was largely responsible for an increase in the retail price level of over 4 percent in July. In response to inflation and excessive monetary growth rates, interest rates continue to increase. Germany has moved to restrain credit, and Canada and France have increased interest rates in the past month. However, France announced, in early September, a moderate fiscal stimulus.

Second quarter trade-account surpluses (s.a.) were smaller and deficits were larger than the 1978 quarterly average for all G-10 countries where data is available. The same is true for first quarter current accounts. Germany's current-account surplus (s.a.) for the

first quarter was \$825 million below the 1978 quarterly average. Japan ran a current-account deficit in the first half-year at a rate of \$0.8 billion (s.a.a.r.). This compares with a surplus of \$16.5 billion in 1978. The six major countries had a combined trade surplus (s.a.) of only \$6.7 billion for the first half of 1979 compared with \$24.4 billion for the equivalent period last year. Simple calculations, assuming constant oil import volume, indicate that about \$6 billion of the \$18 billion swing was absorbed by higher oil bills; of course only a small part of this year's oil price rise was reflected in first-half trade data. Another fraction of the swing was a counterpart of the \$3.5 billion improvement in the U.S. deficit over the same period. The remaining fraction reflects a variety of factors.

Individual Country Notes. Japanese real GNP increased 6 percent (s.a.a.r.) in the second quarter following a 7 percent first-quarter increase. Private plant, equipment, and consumption expenditure were the primary sources of strength. The mid-August Tokyo consumer price index dropped by 1-1/4 percent; the decline is somewhat less (about 1/2 point) when seasonal factors are excluded. Any optimism derived from this decline must be tempered by the 20 percent annual rate of wholesale price advance in June-August (compared with the previous three months). Both bank lending and money stock growth slowed in recent months. Short term interest rates moved upward, in the wake of the July discount rate increase, until mid-August. They have remained flat since then.

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

IV - 17

		1976	1977	1978	1978			1979		1979				
					Q2	Q3	Q4	Q1	Q2	Mar	Apr	May	Jun	Jul
Canada:	GNP	5.4	2.4	3.4	0.9	1.1	0.7	1.7	-0.7	*	*	*	*	*
	IP	5.1	4.0	5.3	1.3	1.8	2.6	1.4	-1.2	0.9	-1.3	0.1	-1.1	n.a.
France:	GDP	4.9	3.0	3.4	1.7	0.3	1.7	0.4	n.a.	*	*	*	*	*
	IP	9.4	2.0	1.9	2.4	-0.3	1.6	0.0	0.5	0.8	-1.5	2.3	0.0	n.a.
Germany:	GNP	5.2	2.6	3.4	2.1	0.7	0.9	0.0	n.a.	*	*	*	*	*
	IP	7.9	2.7	2.0	-0.6	3.2	0.8	0.3	2.8	2.5	0.0	1.6	0.8	1.6
Italy:	GDP	5.9	2.0	2.6	0.4	0.6	2.9	1.0	n.a.	*	*	*	*	*
	IP	12.4	1.1	1.9	-2.2	1.0	6.1	1.1	-2.8	-2.4	0.8	-3.1	-4.5	n.a.
Japan:	GNP	6.4	5.4	5.6	1.0	0.8	1.7	1.8	1.5	*	*	*	*	*
	IP	11.1	4.2	6.2	1.9	1.3	2.2	1.8	2.4	-0.5	0.8	2.1	0.2	0.8
United Kingdom:	GDP	3.0	1.9	3.1	2.3	0.7	0.0	-1.6	n.a.	*	*	*	*	*
	IP	1.9	3.8	3.7	3.5	0.8	-1.4	-0.4	4.5	1.1	0.3	0.9	1.5	n.a.
United States:	GNP	5.9	5.3	4.4	2.0	0.9	1.4	0.3	-0.6	*	*	*	*	*
	IP	10.7	5.9	5.8	3.1	1.9	1.9	1.0	-0.2	0.7	-1.4	1.1	-0.1	-0.1

\* GNP data are not published on monthly basis.



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

	1976	1977	1978	Latest 3 months from:								
				1978				1979		Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
				Q1	Q2	Q3	Q4	Q1	Q2			
Canada: CPI	7.5	8.0	8.9	1.8	2.4	2.5	1.6	2.3	2.6	10.0	8.7	July
WPI	5.1	7.9	9.2	2.4	2.8	2.1	3.3	3.9	3.8	13.2	14.0	July
France: CPI	9.6	9.5	9.2	1.6	2.9	2.7	2.1	2.2	2.8	12.8	10.2	July
WPI	7.4	5.6	4.3	1.4	1.9	1.9	2.9	4.4	3.8	11.8	13.8	July
Germany: CPI	4.6	3.9	2.6	1.3	0.9	0.0	0.1	2.1	1.6	5.3	4.4	Aug
WPI	5.8	1.8	-0.3	1.0	0.3	-0.6	0.0	3.5	3.4	10.6	7.0	July
Italy: CPI	16.8	18.4	12.1	2.6	3.0	2.4	3.0	3.9	3.8	14.2	13.9	July
WPI	22.9	17.4	8.4	2.1	2.3	1.8	2.2	4.4	4.6	17.5	14.3	July
Japan: CPI	9.7	8.3	4.3	0.9	2.0	0.8	0.2	-0.2	2.7	4.3	3.4	Aug
WPI	5.0	1.9	-2.5	-0.5	-0.3	-1.7	-0.6	1.9	4.1	20.5	8.1	Aug
United Kingdom: CPI	16.6	15.8	8.3	1.7	2.7	1.7	1.7	3.1	3.7	21.0	12.5	July
WPI	17.3	19.8	9.1	2.3	1.8	1.9	1.7	2.7	3.9	21.9	13.1	Aug
United States: CPI	5.7	6.5	7.6	1.7	2.6	2.4	2.0	2.5	3.4	14.7	11.0	July
WPI	4.6	6.1	7.8	2.4	3.0	1.5	2.3	3.6	3.4	11.8	12.3	Aug

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

	1977	1978	1978				1979		1979		
			Q1	Q2	Q3	Q4	Q1	Q2	May	Jun	Jul
Canada: Trade	2.7	3.1	1.2	0.6	0.6	0.7	0.4	0.4	0.2	0.2	0.1
Current Account	-4.1	-4.6	-0.9	-1.1	-1.2	-1.5	-1.4	-1.5	*	*	*
France: Trade <sup>b/</sup>	-2.4	0.6	0.0	0.2	0.2	0.1	0.3	-0.4	-0.3	-0.3	-0.2
Current Account <sup>b/</sup>	-3.3	3.8	0.1	1.4	1.2	1.3	0.8	n.a.	*	*	*
Germany: Trade	16.5	20.6	4.6	4.9	5.4	5.6	4.3	3.8	0.9	1.1	0.7
Current Account <sup>c/</sup>	4.3	8.9	2.1	1.8	0.2	4.8	1.4	-1.1	-0.1	-1.7	-1.1
Italy: Trade	-2.8	-0.2	-0.2	0.3	-0.8	0.5	-0.4	-0.7	-0.6	-0.5	n.a.
Current Account <sup>c/</sup>	2.3	6.3	0.3	1.8	2.6	1.6	n.a.	n.a.	*	*	*
Japan: Trade	17.4	24.7	7.4	6.8	6.7	3.9	2.7	1.9	0.8	0.8	-0.2
Current Account	10.9	16.5	5.5	4.8	4.5	1.7	0.3	-0.7	0.0	-0.2	-1.3
United Kingdom: Trade	-3.0	-2.2	-1.1	-0.3	-0.7	-0.1	-3.2	-2.3	-0.8	-0.9	0.0
Current Account <sup>d/</sup>	0.7	0.9	-0.7	0.4	0.3	0.9	-2.3	-2.3	-0.6	-0.4	0.2
United States: Trade	-30.9	-34.2	-11.9	-7.9	-8.0	-6.4	-6.1	-7.5	-2.3	-2.6	-1.4
Current Account	-14.1	-13.9	-6.9	-3.4	-3.2	-0.3	0.2	n.a.	*	*	*

a/ The current account includes goods, services, and private and official transfers.

b/ French annual data is not seasonally adjusted.

c/ Not seasonally adjusted.

d/ The 1979 monthly data does not reflect the most recent revisions, the details of which we have not yet received.

\* Comparable monthly current account data are not published.

The Japanese current account registered a \$1-1/4 billion deficit in July, and it is in cumulative deficit by about \$1-3/4 billion for the first seven months of the year. Terms-of-trade losses account for much of the recent current-account reversal. For the three months ending in July, the dollar based unit value index for imports increased at an annual rate greater than 35 percent; dollar based export unit values were nearly unchanged over the same period.

Industrial production was strong in Germany during the second quarter and through July. Apart from some signs of weakening demand for large automobiles, the strength pervades all sectors. Although the August consumer price index was only 0.1 percent above the July figure, prices are now five percent higher than one year ago.

In August, the Bundesbank attempted to strengthen its control of monetary aggregates by reducing lombard credit abuses. Henceforth, each bank's average monthly indebtedness is not to exceed 15 percent of its discount quota. When the measure becomes fully effective it will reduce lombard credit by about half (DM4 billion) of its August level.

The current-account deficit (n.s.a.) of Germany in January-July was \$0.8 billion compared with a surplus of \$3.2 billion for the same seven months last year. About two-thirds of the current-account change was in the trade account. Large terms-of-trade changes against Germany, due to exchange-rate developments early in the year and higher oil prices later, were responsible for a major part of the deterioration. Tourism and interest payment expenditure accounted for the rest of the current-account reversal.

In the United Kingdom, preliminary data indicate that real GDP rose strongly in the second quarter of 1979, although much of the 3 percent increase (quarterly rate) between the first and second quarters simply reflects recovery from the effects of the first quarter's industrial disputes. Industrial production has also recovered from its first-quarter level and in June the index was some 4-1/2 percent above the level prevailing 12 months earlier. The unemployment rate has been declining for most of 1979, and in August it stood at 5.2 percent, the lowest rate since early 1976. Nevertheless, there are signs that the expected downturn in the U.K. economy may be starting: notified job vacancies (s.a.) have started declining, and the latest survey data indicate a weakening in orders, especially export orders.

Various labor disputes have made interpretation of the U.K.'s current-account data for 1979 difficult. Data roughly adjusted by the U.K. government indicate that for the first 7 months of the year, the current account was in deficit by about \$4-1/2 billion. During July the current account showed a surplus of about \$200 million. The data for this year represent a pronounced weakening in external performance compared to that in 1978. Special factors such as the truckdrivers' strike in the first quarter and losses of exports to Iran and Nigeria account for some of the decrease in the current-account balance. However, so far in 1979 there has been also a substantial increase in imports in both value and volume terms. Increases in North Sea oil production have continued to contribute positively to the U.K.'s external performance.

Italian industrial production fell by a total of 7-1/2 percent in May and June. Since widespread strikes account for a substantial part of the fall, it is too early to tell whether the upswing that began in the last quarter of 1978 is now flattening out.

The trade account reflects the earlier strength of the Italian economy. Strong import growth largely accounts for the higher deficit; exports have been maintained at the high levels of last year. The customs basis trade deficit grew from \$300 million (s.a.) in the second half of 1978 to \$1 billion in the first half of this year. The current account is probably still in substantial surplus, although at less than the \$6 billion rate of last year. The current account is sustained by tourism, which is expected to increase significantly again this year, and by growing emigrant remittances.

GDP growth in France for the first quarter was only 1.7 percent (a.r.). Although second-quarter figures are not available, little, if any, improvement is expected. Unemployment continues to increase.

In early September a fiscal stimulus, in the form of increased transfers, public works, and construction aid, totalling slightly over \$1 billion was announced. The new 1980 budget foresees a \$7 billion deficit, which is twice the original 1979 budget deficit planned but somewhat less than the 1979 deficit now anticipated.

For the first six months M2 growth was nearly 15 percent (s.a.a.r.). If the 11 percent target is to be attained, growth in M2 for the remainder of this year will have to be at less than half the

rate achieved in the first semester. The Bank of France raised the rate at which it makes open market purchases by 3/4 percent this week.

Although the motivation for the increase was primarily to stabilize the franc, the increase should contribute to slower monetary growth. A target of 11 percent M2 growth is to be repeated for 1980.

The French current account turned around by \$7 billion in 1978, recording a \$3.8 billion surplus. After six surplus quarters the trade account was in deficit in the second quarter. Although volume movements worked against France in the first quarter they were partially offset by terms-of-trade gains. The increase in the price of oil and a U.S. slowdown will both work against France for the rest of the year.

Real GNP in Canada fell 2.8 percent (s.a.a.r.) in the second quarter after increasing 7.1 percent in the first quarter. In addition, to a fall in export volume, a slowdown in inventory accumulation and business investment and moderation in personal expenditure led to the decline.

The Canadian current-account deficit for the first quarter was \$5.7 billion (s.a.a.r.) compared with \$4.6 billion for the whole of 1978. The merchandise trade surplus for the first semester was \$1.4 billion (s.a.a.r.) compared with \$3 billion for all of last year. Export volume fell 5.9 percent (s.a.a.r.) in the second quarter; decreased automobile exports were a major factor.

The Bank of Canada raised the bank rate, effective September 10, to 12-1/4 percent from 11-3/4 percent, where it has been since July 23.

## APPENDIX A\*

### THE SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES

Forty-three percent of the 121 respondents to the mid-August Senior Loan Officer Opinion Survey on Bank Lending Practices reported a strengthening in the demand for business loans from three months earlier, somewhat below the proportion that had reported greater strength in the previous survey. As in the previous survey, only a handful of banks reported that loan demand had eased. Looking to the future, about one-third of responding banks expected loan demand to strengthen, with a large proportion of the banks that experienced strengthening in the three months ending in mid-August expecting loan demand to remain essentially unchanged in the next three months.

At the time of the survey the prime rate had just been raised by 1/4 percentage point to 11-3/4 percent, reversing a like decline earlier in the survey period; however, it remained under upward pressure as rates on CDs and on alternative forms of short-term credit continued to increase rapidly, and it rose another 1/4 percentage point immediately after the survey. As in the mid-May survey, the number of banks reporting that they had established more stringent criteria to qualify for the prime rate clearly exceeded the number that had eased standards of credit worthiness; those indicating tightening were predominantly medium-size banks (those with assets of \$1/2 billion to \$5 billion.) There was some slight evidence that the criteria to qualify for a spread over prime also had been tightened. The number of banks reporting a greater willingness to make short-term fixed rate loans declined somewhat, perhaps reflecting concerns that the upward pressure on short-term interest rates would persist in the near term. As in the last survey, the number of banks reporting a decreased willingness to make long-term fixed rate loans exceeded the number expressing an increased willingness.

There was no significant change in compensating balance requirements with small proportions of respondents reporting easing and tightening. As was the case three months earlier, only medium-size banks reported tightening compensating balance requirements.

As in the preceding two surveys, most respondents had left essentially unchanged the criteria used to evaluate credit applications from established and local area customers, while a noticeable minority had established firmer criteria for new and non-local customers.

The results of the current survey indicate that for most categories of credit, including installment loans to individuals and single-family mortgages, a fairly consistent minority of banks--generally between 10 and 15 percent--have become less willing to lend while few if any have become more willing, about the situation that has prevailed for the last two surveys.

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

TABLE 1

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SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES  
AT SELECTED LARGE BANKS IN THE U.S.  
(STATUS OF POLICY ON AUGUST 15, 1979 COMPARED TO THREE MONTHS EARLIER)  
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

C 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	3	2.5	52	43.0	63	49.6	6	5.0	0	0.0	121
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	1	0.9	38	31.5	71	58.7	11	9.1	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	1	0.9	17	14.1	97	80.2	6	5.0	0	0.0	121
4. TO QUALIFY FOR SPREAD ABOVE PRIME	2	1.7	19	12.4	92	76.1	12	10.0	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)	1	0.9	7	5.8	100	82.7	12	9.9	3	2.5	121
6. LONG-TERM (ONE YEAR OR LONGER)	3	2.5	12	10.0	81	67.0	20	16.6	5	4.2	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	2	1.7	19	15.8	96	79.4	4	3.4	0	0.0	121
9. LOCAL SERVICE AREA CUSTOMERS	0	0.0	5	4.2	111	92.5	4	3.4	0	0.0	120
10. NONLOCAL SERVICE AREA CUSTOMERS	3	2.5	23	19.2	61	75.9	3	2.5	0	0.0	120
COMPENSATING BALANCE REQUIREMENTS FOR:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
11. COMMERCIAL & INDUSTRIAL LOANS	0	0.0	14	11.6	94	77.7	13	10.8	0	0.0	121
12. LOANS TO FINANCE COMPANIES	1	0.9	7	5.8	104	86.3	9	7.5	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 DEVELOPMENT	0	0.0	6	5.0	92	76.1	22	18.2	1	0.9	121
SECURED REAL ESTATE LOANS:											
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0.0	6	5.0	97	80.9	18	13.4	1	0.9	120
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	1	0.9	58	44.9	17	14.7	0	0.0	116
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	6	5.0	99	81.9	14	11.6	2	1.7	121
17. INSTALLMENT LOANS TO INDIVIDUALS	1	0.9	3	2.5	104	86.0	12	10.0	1	0.9	121
COMMERCIAL AND INDUSTRIAL LOANS OF:											
18. 1-5 YEARS MATURITY	0	0.0	9	7.5	108	89.3	4	3.4	0	0.0	121
19. OVER 5 YEARS MATURITY	0	0.0	5	4.2	96	79.4	19	15.8	1	0.9	121
20. LOANS TO FINANCE COMPANIES	0	0.0	0	0.0	112	92.6	9	7.5	0	0.0	121
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0.0	4	3.4	103	85.9	11	9.2	2	1.7	120
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0.0	6	5.0	104	86.0	10	8.3	1	0.9	121



COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DOMESTIC ASSETS  
(STATUS OF POLICY ON AUGUST 15, 1979 COMPARED TO THREE MONTHS EARLIER)  
(NUMBER OF BANKS ANSWERING EACH QUESTION AS PERCENT OF TOTAL NUMBER OF BANKS ANSWERING QUESTION)

LOAN DEMAND	SIZE OF BANK — TOTAL DOMESTIC ASSETS IN BILLIONS											
	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER		TOTAL	
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):												
1. COMPARED TO THREE MONTHS EARLIER	5	2	43	43	52	49	0	6	0	0	100	100
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	0	1	30	30	62	50	0	11	0	0	100	100
INTEREST RATE POLICY												
STANDARDS OF CREDIT WORTHINESS:												
3. TO QUALIFY FOR PRIME RATE	0	1	5	16	95	77	0	6	0	0	100	100
4. TO QUALIFY FOR SPREAD ABOVE PRIME	0	2	12	13	86	74	5	11	0	0	100	100
WILLINGNESS TO MAKE FIXED RATE LOANS:												
5. SHORT-TERM (UNDER ONE YEAR)	5	3	5	6	76	84	14	7	0	3	100	100
6. LONG-TERM (ONE YEAR OR LONGER)	0	3	18	10	71	64	14	17	5	4	100	100
CREDIT AVAILABILITY AND NONPRICE TERMS												
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:												
7. ESTABLISHED CUSTOMERS	0	0	0	4	95	95	5	1	0	0	100	100
8. NEW CUSTOMERS	0	2	19	15	76	80	5	3	0	0	100	100
9. LOCAL SERVICE AREA CUSTOMERS	0	0	0	2	95	92	5	3	0	0	100	100
10. NONLOCAL SERVICE AREA CUSTOMERS	0	3	0	23	95	72	5	2	0	0	100	100
COMPENSATING BALANCE REQUIREMENTS FOR:												
11. COMMERCIAL & INDUSTRIAL LOANS	0	0	0	14	81	77	19	9	0	0	100	100
12. LOANS TO FINANCE COMPANIES	5	0	0	7	81	87	14	6	0	0	100	100
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:												
13. SECURED CONSTRUCTION & LAND DEVELOPMENT	0	0	10	4	81	75	10	20	0	1	100	100
SECURED REAL ESTATE LOANS:												
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0	10	4	85	80	5	15	0	1	100	100
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0	6	0	78	86	17	14	0	3	100	100
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0	5	5	90	80	5	13	0	2	100	100
17. INSTALLMENT LOANS TO INDIVIDUALS	0	1	0	3	90	85	10	10	0	1	100	100
COMMERCIAL AND INDUSTRIAL LOANS OF:												
18. 1-5 YEARS MATURITY	0	0	5	8	95	88	0	4	0	0	100	100
19. OVER 5 YEARS MATURITY	0	0	0	5	90	77	10	17	0	1	100	100
20. LOANS TO FINANCE COMPANIES	0	0	0	0	95	92	5	8	0	0	100	100
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0	14	1	76	88	10	9	0	2	100	100
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0	13	4	81	87	10	8	0	1	100	100