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Confidential (FR) Class II FOMC

August 6, 1980

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
				(At annual rate)		
Civilian labor force	July	8-1-80	105.2	7.6	3.0	2.0
Unemployment rate (%) 1/	July	8-1-80	7.8	7.7	7.0	5.7
Insured unemployment rate (%) 1/	July	8-1-80	4.5	4.7	3.7	2.9
Nonfarm employment, payroll (mil.)	July	8-1-80	89.7	-3.2	-5.3	-.4
Manufacturing	July	8-1-80	19.7	-15.4	-17.4	-6.6
Nonmanufacturing	July	8-1-80	70.0	.3	-1.8	1.5
Private nonfarm:						
Average weekly hours (hr.) 1/	July	8-1-80	35.0	35.1	35.3	35.6
Hourly earnings ($) 1/	July	8-1-80	6.65	6.63	6.54	6.17
Manufacturing:						
Average weekly hours (hr.) 1/	July	8-1-80	39.1	39.1	39.8	40.1
Unit labor cost (1967=100)	June	7-30-80	196.6	19.2	19.6	13.0
Industrial production (1967=100)	June	7-15-80	141.2	-29.0	-27.7	-7.5
Consumer goods	June	7-15-80	140.6	-11.0	-19.5	-7.4
Business equipment	June	7-15-80	168.3	-27.9	-17.3	-1.9
Defense & space equipment	June	7-15-80	95.8	-1.3	-1.2	3.8
Materials	June	7-15-80	141.3	-41.8	-36.3	-9.7
Consumer prices all items (1967=100)	June	7-23-80	247.1	11.8	11.1	14.3
All items, excluding food & energy	June	7-23-80	233.5	13.0	12.9	13.5
Food	June	7-23-80	250.5	[illegible].3	5.5	7.0
Producer prices: (1967=100)						
Finished goods	June	7-8-80	242.3	9.5	6.2	13.5
Intermediate materials, nonfood	June	7-8-80	279.5	10.0	5.1	16.0
Crude foodstuffs & feedstuffs	June	7-8-80	237.7	13.3	-11.0	-2.1
Personal income ($ bil.) 2/	June	7-17-80	2085.7	4.6	3.0	9.5
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	June	7-31-80	66.6	-1.0	-14.1	-12.4
Capital goods industries	June	7-31-80	23.3	-6.4	-14.4	-3.7
Nondefense	June	7-31-80	19.8	1.1	-12.3	-8.7
Defense	June	7-31-80	3.5	-34.6	-24.8	40.2
Inventories to sales ratio: 1/						
Manufacturing and trade, total	May	8-5-80	1.53	1.51	1.40	1.40
Manufacturing	June	7-31-80	1.73	1.72	1.59	1.54
Trade	May	8-5-80	1.34	1.34	1.27	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	June	7-31-80	.593	.588	.572	.550
Retail sales, total ($ bil.)	June	7-10-80	75.3	1.5	-1.6	4.5
GAF 3/	June	7-10-80	16.9	1.0	2.7	6.0
Auto sales, total (mil. units.) 2/	July	8-5-80	9.0	19.2	9.9	-15.0
Domestic models	July	8-5-80	6.4	19.2	7.4	-22.7
Foreign models	July	8-5-80	2.6	19.5	16.9	13.2
Housing starts, private (thous.) 2/	June	7-17-80	1,191	30.4	14.4	-37.6
Leading indicators (1967=100)	June	7-30-80	126.9	2.5	-3.8	-10.4

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

Incoming data indicate a continued contraction in overall economic activity, but the downward momentum appears to have slowed. Outlays for fixed capital have continued to weaken, while activity in housing and auto sectors has firmed. The dramatic decline in final sales has led to a sharp rise in inventory-sales ratios, but adjustment of excess stocks appears to be proceeding at an unusually rapid pace. Prices slowed considerably in the second quarter, due largely to an easing in energy prices; the pace of increase remained rapid by historical standards, and there are indications of an acceleration of food prices in the near future.

Employment and Production

Nonfarm payroll employment adjusted for strikes, which is probably the best indicator of near-term market conditions, fell by close to 100,000 in July, compared with an average monthly decline of more than 400,000 over the second quarter. Employment in the service-producing sector resumed its upward trend, following two months of decline, as sizable increases at retail trade and service establishments more than offset the reduction in federal workers that had been hired temporarily to take the 1980 Census. However, large employment cuts continued in July in the manufacturing sector, where jobs fell by 250,000 and are now nearly 1-1/2 million below their peak a year earlier. Payrolls were pared at producers of both durable and nondurable goods. In durables, sizable job losses occurred in primary and fabricated metals and machinery, while in nondurables declines were evident in apparel, food, and textiles. The factory workweek was unchanged in July at a

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

	1978	1979	1980 Q1	1980 Q2	1980 June	1980 July
	- - - Average monthly changes - - -					
Nonfarm payroll employment[2]	357	176	155	-390	-495	-238
Strike adjusted	341	182	158	-415	-499	-94
Manufacturing	74	1	-15	-313	-287	-257
Durable	62	4	0	-258	-207	-161
Nondurable	12	-3	-15	-55	-80	-96
Construction	31	20	-29	-53	-65	-51
Trade, finance and services	182	113	144	-29	-65	152
Private nonfarm production workers	264	112	55	-411	-435	-130
Manufacturing production workers	54	-11	-35	-310	-267	-197
Total employment[3]	270	173	-85	-373	-451	459
Nonagricultural	264	175	-85	-317	-263	393

1. Changes are from final month of preceding period to final month of period indicated.
2. Survey of establishments. Data for 1980 are revised to reflect benchmark levels for March 1979, revisions for prior years have not yet been received. Not strike adjusted, except where noted.
3. Survey of households.

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

	1978	1979	1980 Q1	1980 Q2	1980 June	1980 July
Total, 16 years and older	6.0	5.8	6.1	7.5	7.7	7.8
Teenagers	16.3	16.1	16.2	18.0	18.5	19.0
20-24 years old	9.5	9.0	9.8	12.2	12.4	12.3
Men, 25 years and older	3.3	3.3	3.7	5.2	5.5	5.6
Women, 25 years and older	5.1	4.8	4.9	5.6	5.6	5.7
White,	5.2	5.1	5.4	6.6	6.8	6.9
Black and other	11.9	11.3	11.7	13.4	13.6	14.2
Fulltime workers	5.5	5.3	5.7	7.2	7.4	7.6
White collar	3.5	3.3	3.4	3.8	3.7	3.7
Blue collar	6.9	6.9	7.9	10.9	11.5	11.5

cyclically low level, following 5 consecutive monthly declines, and overtime increased 0.1 hour.

In contrast to the decline indicated by the establishment data, total employment as measured by the household survey actually rose 460,000 in July, after dropping 1-1/2 million over the preceding four months. Job gains took place among both men and women, but almost half of the increase occurred among 16 to 24 year old workers. Unemployment also increased in July, and the jobless rate edged up to 7.8 percent. Unemployment rates for most worker groups have not changed appreciably since May, following sharp increases earlier this year.

The index of industrial production is expected to have declined significantly further in July, although less than the 2.4 percent drop recorded in June. While output in the lumber and steel industries apparently leveled off in July after sharp downturns earlier in the year, production of machinery and some nondurable goods probably recorded further declines during the month. Auto output increased moderately during July, but production of trucks changed little from the reduced June level.

In June, capacity utilization in manufacturing was 76.1 percent, down 2.3 percentage points from May. Utilization rates fell further in July. The rate for all manufacturers, which so far are still above the low of the previous recession, has declined more than 10 percentage points from its most recent high.

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980 QI	1980 QII	1980 May	1980 June
	- - Percentage change, at annual rates[1] - -					
Total personal income	12.9	11.2	8.5	3.1	3.6	4.6
Wage and salary disbursements	12.8	10.1	10.1	-1.2	.1	.7
Private	14.1	10.8	10.9	-3.0	-2.1	-.3
Nominal disposable personal income	12.0	10.4	11.5	2.5	2.5	3.8
Real disposable personal income	4.2	.5	-2.7	n.a.	-3.9	n.a.
	- - Changes in billions of dollars[2] - -					
Total personal income	$17.8	$16.8	$13.9	$ 5.2	$ 6.2	$ 8.0
Wage and salary disbursements	11.5	9.7	10.4	-1.4	.1	.8
Private	10.1	8.4	9.1	-2.7	-1.9	-.3
Manufacturing	3.2	2.0	2.7	-4.1	-4.6	-3.7
Other income	7.1	8.1	4.3	7.1	7.7	7.8
Transfer payments	1.5	2.9	2.4	3.2	4.9	2.7
Less: Personal contributions for social insurance	.8	.9	.8	.5	1.6	.6
Memorandum:						
Personal saving rate[3]	4.9	4.6	3.7	4.7	4.7	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly period are compounded rates of changes.
2. Average monthly change.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

Personal Income and Consumer Spending

Income growth has slowed substantially recently, in line with the weakness in production and employment. Personal income in nominal terms rose at a 4-1/2 percent annual rate in June, about the same as the rate since the beginning of the year, but considerably less than the 1979 pace. Nominal wages and salaries were virtually unchanged in June, primarily because of further layoffs in manufacturing and reductions in overtime schedules. In real terms, disposable income is estimated to have fallen further, bringing the cumulative decline since the January peak to about 2-1/2 percent. Moreover, in July nominal wages and salaries probably were about unchanged from June, reflecting the drop in aggregate weekly hours and the moderate rise in average hourly earnings. Total personal income in July, however, was boosted by the increase in social security benefits.

Despite the continued slow growth in personal income, consumer spending turned up moderately in June after four consecutive monthly declines. Total retail sales in nominal terms rose 1.5 percent. Nearly all major categories of sales increased, with a good part of the overall advance attributable to the automotive sector. Excluding autos and nonconsumption items, sales were up 1.1 percent, recovering the declines of the two previous months. Sales at the GAF grouping of stores, which sell mostly discretionary items, registered a sizable advance for the second month. Total retail sales in June, however, were 5 percent below their January peak, and in real terms they were still well below their September 1979 peak.

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

	1979		1980				
	Q3	Q4	Q1	Q2	Apr.	May	June
Total sales	4.0	2.0	2.1	-4.0	-2.0	-1.0	1.5
(Real)[1]	2.0	-.4	-1.2	-6.0[4]	-2.6	-1.2	1.2[4]
Total, less auto and nonconsumption items	4.0	3.5	2.6	-.2	-.2	-.9	1.1
GAF[2]	4.6	1.7	-.1	-1.0	-.5	2.2	1.0
Durable	4.3	-1.5	.9	-12.2	-6.1	-1.2	2.5
Auto	3.7	-3.0	1.5	-16.7	-9.2	-1.6	3.9
Furniture & appliances	6.5	-1.1	1.0	-3.8	-2.2	1.7	.5
Nondurable	3.8	3.9	2.8	.1	-.1	-.9	1.0
Apparel	4.8	-.7	1.4	.6	1.9	.8	1.1
Food	2.3	3.3	2.3	1.2	.9	-1.7	.3
General merchandise[3]	3.8	3.7	-1.2	-.5	-.8	2.9	1.2
Gasoline	8.2	7.7	9.2	2.7	.9	-2.6	1.5

1. BCD series 59. Data are available approximately 3 weeks following the CPI release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.
4. June estimated in National Income section.

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

	1979		1980				
	Q3	Q4	Q1	Q2	May	June	July
Total	10.8	9.8	10.6	7.7	7.3	7.6	9.0
Foreign-made	2.2	2.4	2.8	2.1	2.1	2.2	2.6
U.S.-made	8.6	7.4	7.9	5.5	5.2	5.4	6.4
Small	3.6	3.5	4.0	2.8	2.6	2.7	n.a.
Intermediate & standard	4.9	4.0	3.9	2.7	2.6	2.7	n.a.

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

Sales of domestic autos rose to a 6.4 million unit annual rate in July, the best monthly rate since March. Sales of foreign-made cars registered a relatively larger gain to a 2.6 million unit rate, and took about 30 percent of the market.

The upturn in sales coincided with an improvement in consumer attitudes. The indexes of consumer attitudes produced by both the University of Michigan and the Conference Board rose for the second consecutive month in July, although they remain at extremely low levels. Both surveys indicated that the improved opinions expressed in June about market conditions for the purchase of cars, large household durables, and homes generally continued into July. Consumers' expectations of inflation over the next 12 months increased to 9.0 percent in July from 8.1 percent in June, but they were down sharply from the record 13 percent rate posted in January. In contrast to earlier in the year, consumers now cite their expectations of lower interest rates over the next year as a favorable factor in conditions for household purchases.

Business Fixed Investment

Business capital spending remained weak in June. Shipments of nondefense capital goods fell 1.2 percent in current dollars. For the second quarter as a whole, nominal deliveries were 2.7 percent below the first quarter pace--the sharpest quarterly drop reported since the beginning of this series in 1968. Sales of heavy-weight trucks rose 50,000 units (annual rate) in June, yet sales in the second quarter were still down 90,000 units from the first quarter pace. Finally, nonresidential construction put-in-place declined slightly further in June, and was down 2.2 percent in the second quarter.

BUSINESS INVESTMENT SPENDING
(Percentage change from preceding comparable period, based on seasonally adjusted data in current dollars)

	1979	1980				Jan. 1980 to June 1980
	Q4	Q1	Q2	May	June	
Nondefense capital goods shipments						
Current dollars	1.4	6.0	-2.7	.7	-1.2	-1.7
Constant dollars[1]	2.7	1.9	-3.8	2.2	0.5	-2.5
Addenda: Unit sales of Heavy-Weight Trucks (thousands)	330	330	240	210	260	---
Nonresidential Construction						
Current dollars	4.2	3.3	-2.2	-0.2	-0.1	-5.1
Constant dollars	1.0	0.5	-3.4	-1.0	-2.0	-8.7

1. FRB staff estimate.

BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period, based on seasonally adjusted data)

	1979	1980				Jan. 1980 to June 1980
	Q4	Q1	Q2	May	June	
Nondefense capital goods orders						
Current dollars	1.9	4.3	-9.4	-11.6	1.1	-17.0
Constant dollars	3.1	0.4	-10.4	-10.2	1.9	-17.6
Addenda: Ratio of unfilled orders to shipments (current dollars, monthly)	6.59	6.42	6.58	6.57	6.62	---
Machinery						
Current dollars	3.7	5.5	-14.0	4.6	-0.6	-16.3
Constant dollars[1]	5.0	1.5	-15.0	6.2	0.1	-16.9
Contracts for nonresidential plant						
Current dollars	36.4	-16.1	-31.7	-34.8	86.8	-14.9
Constant dollars	31.2	-17.8	-36.9	-21.9	85.3	-18.2

1. FRB staff estimate.

A moderate recovery in shipments of capital goods could occur in the near term if manufacturers work off sizable backlogs of unfilled orders. However, the downtrend in new orders since the beginning of the year suggests additional cutbacks in equipment into next year. New orders for nondefense capital goods were off 10 percent in real terms for the second quarter as a whole, although they rose slightly in June. The machinery component posted an even steeper second quarter drop. Moreover, declines in construction spending also seem probable, as nonresidential contracts have trended down since the beginning of the year.

Inventory Investment

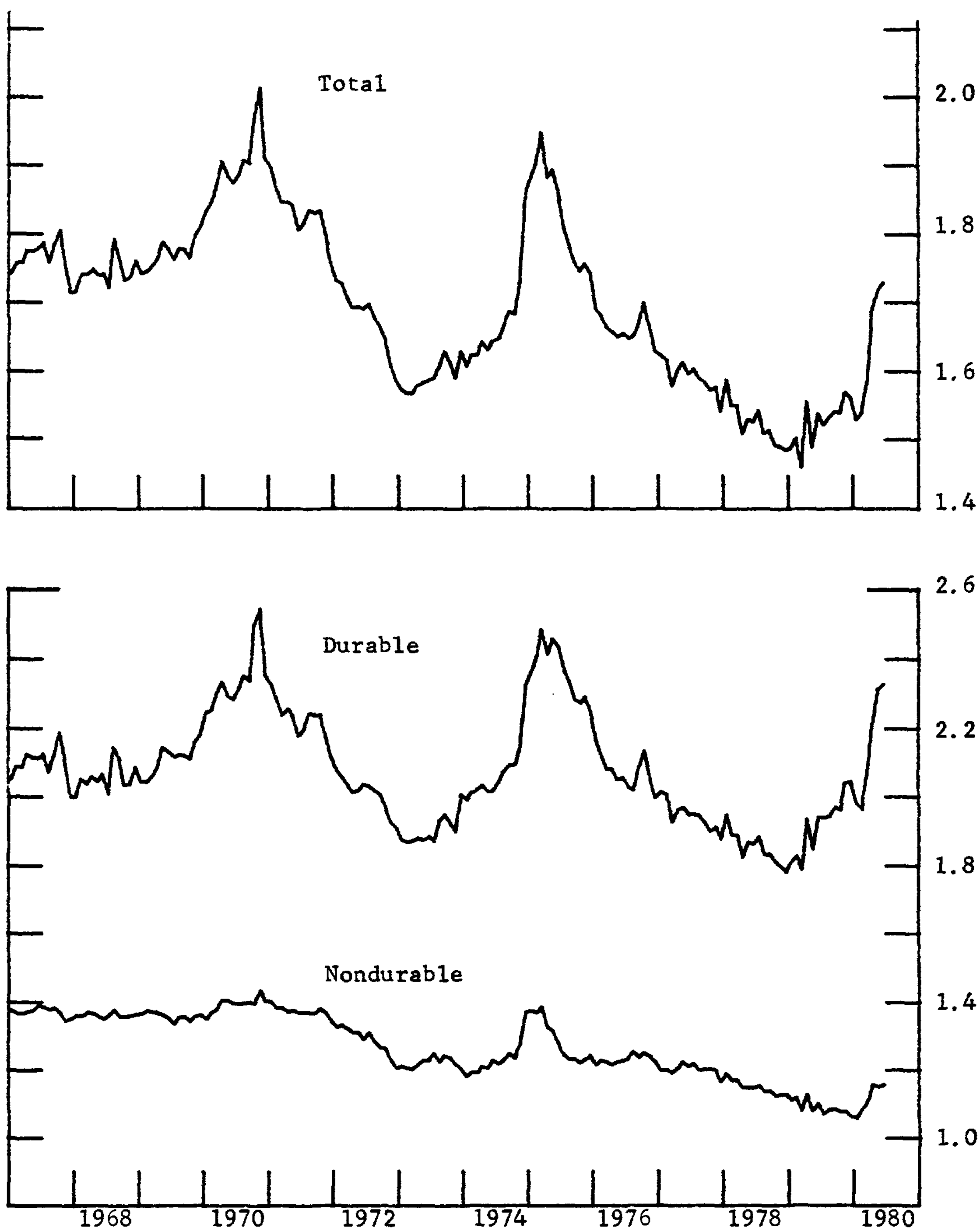
Incoming data on inventory developments suggest a mixed picture for June, as inventory investment at manufacturing continued to slow, while it picked up at wholesalers. The book value of manufacturers' inventories rose at only a $4 billion annual rate in June, following a $10 billion rise in May. These rates are very low compared with the $43 billion rate of accumulation during the first four months of the year and suggest that manufacturers have acted rapidly to prevent an excessive buildup of inventories. Indeed, the book value stocks of durable goods actually declined, after rising rapidly for almost a year and a half. The largest decreases were posted at producers of motor vehicles and parts and fabricated metals. In spite of the reduced accumulation in June, the stock-sales ratio for all manufacturers edged up to 1.73 as shipments dropped somewhat further. The book value of wholesale trade inventories rose at a $14 billion annual rate in June, well above the $5 billion increase in the previous month.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Annual rate)

	1978	1979	1980 Q1	1980 Q2	1980 Apr.	1980 May	1980 June
Book Value Basis							
Total	43.2	47.2	46.1	n.a.	74.4	7.5	n.a.
Manufacturing	18.1	29.9	41.1	20.8	48.2	10.3	3.7
Wholesale	12.8	9.1	7.2	10.5	12.3	4.9	14.0
Retail	12.3	8.1	-2.1	n.a.	13.9	-7.7	n.a.
Constant Dollar Basis							
Total	12.8	7.7	-1.8	n.a.	22.1	-16.0	n.a.
Manufacturing	5.3	7.2	5.3	n.a.	15.8	-3.5	n.a.
Wholesale	4.2	1.0	0.2	n.a.	4.0	-5.6	n.a.
Retail	3.2	-0.5	-7.3	n.a.	2.3	-6.9	n.a.

Totals may not add due to rounding.

INVENTORIES RELATIVE TO SALES*
MANUFACTURING
(Book value basis)



*Last period plotted is June 1980.

Constant dollar inventory data for the entire manufacturing, wholesale, and retail trade sectors are available only for May; data for these stocks, which comprise about 80 percent of total business inventories, suggest that most firms were operating quite successfully to control stocks. Real inventories were liquidated at a $16 billion annual rate during the month, following a large increase in April. Nevertheless, the constant dollar stock-sales ratio for manufacturing and trade rose further in May, about matching its previous cyclical peak in March 1975, as the reduction in inventories was accompanied by a sizable decline in real shipments and sales.

Residential Construction

Housing activity has picked up appreciably. Total private housing starts rose 30 percent in June to 1.2 million units (SAAR). Newly-issued building permits also increased markedly in May and June, climbing more than 30 percent during those two months. Moreover, early indications suggest a further substantial rise in permits for July.

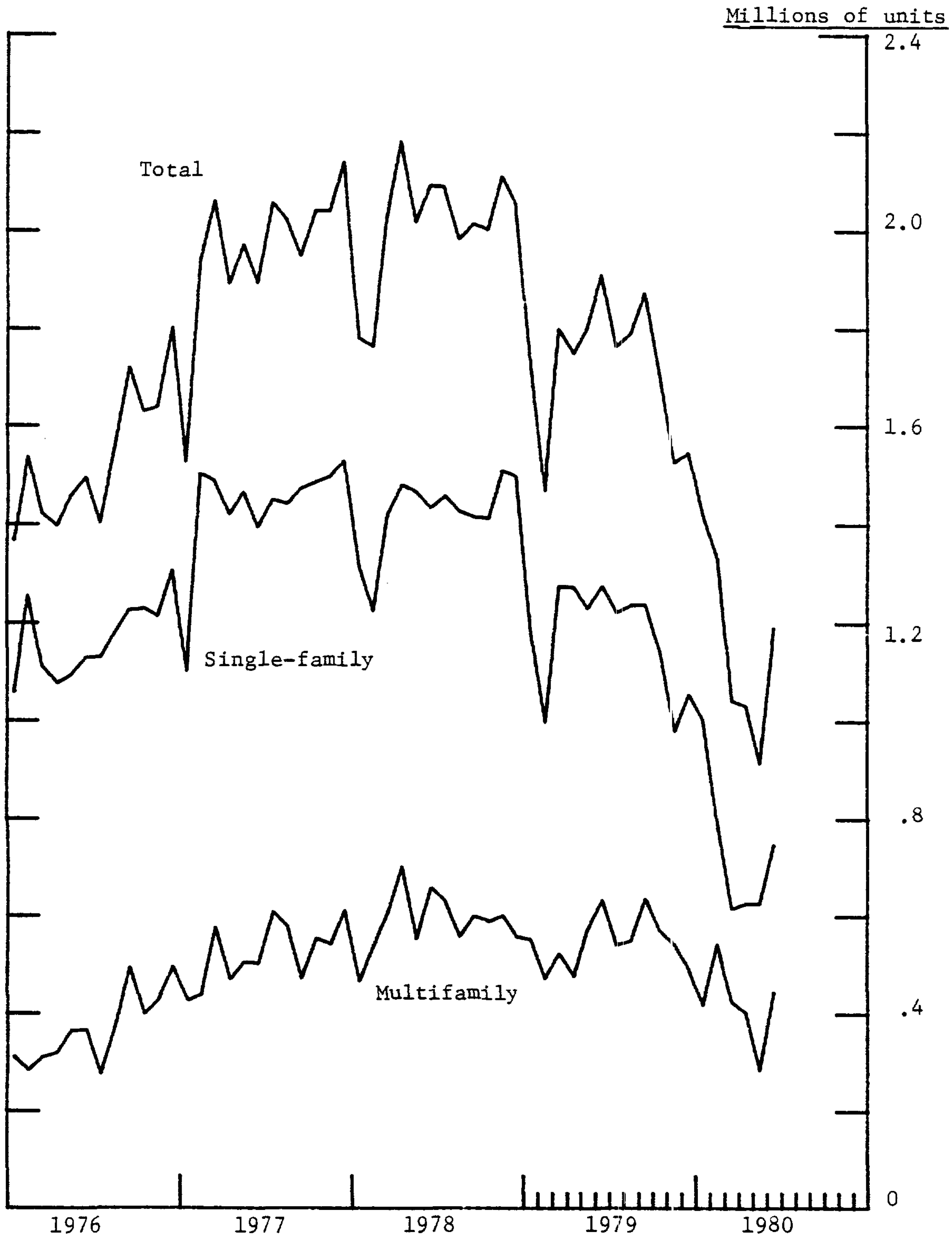
Much of the improvement has been in the single-family market. Existing home sales rose about 8 percent in June, the first increase after 8 consecutive months of decline. In addition, new home sales, which had increased sharply in May, apparently registered another sizable gain in June. These increases in sales have lessened the pressure from unsold inventories of new units; there was a 19 percent advance in single-family starts during June.

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

	1979		1980				
	Annual	Q4	Q1	Q2	Apr.	May	June[1]
All units							
Permits	1.55	1.34	1.14	.89	.79	.83	1.06
Starts	1.75	1.59	1.26	1.05	1.03	.91	1.19
Single-family units							
Permits	.98	.82	.68	.53	.47	.50	.62
Starts	1.19	1.06	.80	.67	.63	.63	.75
Sales							
New homes	.71	.62	.53	n.a.	.35	.49	n.a.
Existing homes	3.74	3.56	2.98	2.41	2.42	2.31	2.50
Multifamily units							
Permits	.57	.52	.45	.36	.32	.33	.44
Starts	.55	.54	.46	.38	.40	.29	.44
Mobile home shipments	.28	.26	.26	n.a.	.20	.16	n.a.

1. Preliminary estimates.
n.a.--not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



Multifamily starts also increased markedly in June, rising more than 150,000 units from May's extremely depressed level. Starts of federally subsidized rental units (HUD, Section 8) were higher in June, and key market forces also are relatively favorable for rental construction. The rental vacancy rate rose to 5.4 percent in the second quarter of 1980, but it remained well below the rate of 6.3 percent during the initial stages of the 1974-75 recovery. Moreover, residential rents have continued to rise rapidly.

Federal Government Sector

The federal government deficit for FY1980, on a unified budget basis, is now estimated by the administration to be $61 billion, up about $24 billion from the March forecast. Outlays--as presented in the July Mid-Session Review--have been revised upward from $569 billion to $579 billion, mainly because of higher spending for unemployment compensation, disaster assistance, and national defense. (See Appendix A for a more complete discussion of the Mid-Session Review.) This spending estimate does not include the administration's recently announced plan to boost agricultural price supports at a cost of about $1 billion over the remaining two months of the 1980 fiscal year and in fiscal 1981. On the receipts side of the budget, the Review shows a substantial $11 billion drop in tax collections from the March estimate, mainly due to economic developments, without counting the additional effect of the congressional rejection of the President's oil import fee.

For fiscal 1981, the budget outlook has been revised substantially, in large part to reflect the impact of the recession and higher defense expenditures. Instead of the $16 billion surplus that was expected in March, the administration now projects a $30 billion deficit, with receipts and outlays of $604 billion and $634 billion, respectively.

Sizable upward revisions in defense spending from the March forecast in both fiscal years 1980 ($2 billion) and 1981 ($7 billion) are estimated in the Review. Treasury data indicate that defense spending has advanced at a brisk pace over the first six months of this calendar year, reflecting higher fuel costs and increased activity in the Persian Gulf area. The recent upsurge in defense outlays also may reflect an increase in progress payments, following a sharp first quarter rise in defense contract awards--a leading indicator of future activity; the upward trend in progress payments is expected to continue throughout the fiscal year beginning October 1.

State and Local Government Sector

Construction activity by state and local governments decreased for the fifth consecutive month in June, with outlays down an additional 1-1/2 percent. The June figure was 15 percent below the January 1980 peak. The decline in the sector's construction activity reflects a sharp fall-off in water, sewer and other projects that are heavily dependent on federal grants. Over the past 6 months, spending for these projects has dropped by one-third.

Preliminary data indicate that state and local government payroll employment increased by about 35,000 in July, despite a further decrease in CETA employment. CETA enrollments are now 370,000--off more than

200,000 from a year earlier. The employment gains, totaling less than one percent since January, have been the smallest in the state and local sector in 30 years; since January hiring has increased by less than one percent.

Prices

The rate of increase in prices at both the producer and consumer levels slowed considerably during the second quarter from their rapid first quarter pace. The consumer price index for all items rose 1 percent in June, about the same as in April and May; increases in prices of food and energy items in June were relatively small, but prices for the housing component once again advanced sharply.

Food prices continued to exert the moderating influence on overall prices evident since the beginning of 1980, rising 0.5 percent in June. So far this year, food prices have been held down by declines for the meat, poultry, fish and eggs grouping. Since mid-June, however, price increases at the producer level for poultry and livestock have been quite large, and these developments suggest that meat prices at the retail level may soon begin to rise substantially. In addition, grain and soybean prices have risen considerably in the last month in response to drought conditions; these increases, if sustained, will also contribute to upward pressure on food prices in the future.

Energy price increases continued to moderate in June, advancing only 0.3 percent. Gasoline prices fell 1 percent, reflecting unusually large inventories and reduced demand, and nearly offset the increases in other energy items. The moderation in energy prices during the second quarter has been a major factor in the slowing in overall prices.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	Relative importance Dec. 1979	1978	1979	1980 Q1	1980 Q2	1980 June
All items	100.0	9.0	13.3	18.1	11.6	11.8
Food	17.7	11.8	10.2	3.8	5.6	6.3
Energy[3]	10.3	8.0	37.4	64.8	8.1	3.3
All items less food and energy[3]	72.0	8.5	11.3	15.7	13.5	13.0
Homeownership	24.9	12.4	19.8	24.1	26.6	27.1
All items less food, energy and home-ownership[4]	50.7	6.9	7.5	12.1	7.6	6.3
Used cars	2.8	13.6	2.2	-2.5	-16.8	-13.5
Other commodities[5]	21.3	5.3	6.6	12.9	6.9	7.1
Other services[5]	26.6	7.7	8.8	12.3	11.0	7.6
Memorandum:						
Gasoline	5.6	8.5	52.2	105.7	-6.2	-11.8

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.
4. Reconstructed series; includes home maintenance and repairs (relative importance weight of 3.6), also a component of homeownership costs.
5. Reconstructed series.

Shelter costs, which have boosted consumer prices for quite some time now, rose even more in June than earlier as a result of large advances in rents, home prices, and mortgage interest rates. However, FHLBB data on mortgage closing rates suggest that this CPI component will ease significantly in July.

Increases in prices for items other than food, energy, and homeownership in the second quarter, while significantly below those in the first quarter, remained somewhat above the pace recorded during 1978 and 1979. The smaller rise in these items during the second quarter can be attributed principally to diminished pressures from higher energy input costs, most noticeably in the production of commodities. Continued sharp increases in labor costs have limited the deceleration, and added to the upward pressure on most service prices.

Productivity and Labor Costs

Labor cost pressures intensified further in the second quarter, as hourly compensation continued to advance rapidly and productivity dropped sharply. Output per hour in the private nonfarm business sector fell at more than a 4 percent annual rate, as a record 12-3/4 percent decline in output outweighed a large reduction in hours worked. Productivity in the manufacturing sector fell somewhat less than in nonfarm business, as producers of durable goods cut back hours more sharply. These declines in productivity are about in line with the experience in early phases of previous recessions.

Wage increases have remained high through the second quarter, reflecting the rapid rates of price increases over the past few quarters. Hourly compensation in the nonfarm business sector, which includes

LABOR PRODUCTIVITY AND COSTS
(Percent change compound annual rates;
based on seasonally adjusted data)[1,2]

	1977	1978	1979	1980 Q1	1980 Q2
Output per hour					
Total private business	1.4	.7	-1.7	-.3	-3.1
Nonfarm business	1.1	1.0	-2.0	-1.1	-4.1
Manufacturing	2.5	.9	-.3	-2.2	-3.2
Durable	1.8	.1	-1.4	-4.1	-1.4
Nondurable	3.6	2.2	1.5	.7	-6.4
Compensation per hour					
Total private business	7.2	9.0	9.2	11.7	12.0
Nonfarm business	7.4	9.0	9.1	10.7	10.8
Manufacturing	7.8	8.4	9.1	10.5	14.7
Durable	8.0	7.9	8.7	12.6	15.7
Nondurable	7.0	8.7	9.7	6.7	15.2
Unit labor costs					
Total private business	5.8	8.2	11.1	12.1	15.5
Nonfarm business	6.2	7.9	11.3	12.0	15.6
Manufacturing	5.2	7.4	9.4	13.0	18.5
Durable	6.2	7.8	10.3	17.4	17.3
Nondurable	3.3	6.3	8.1	5.9	23.1

1. Changes are from final quarter of preceding period to final quarter of period indicated.
2. Data are revised to reflect benchmark revisions in employment data.

fringe benefits as well as wages, rose at a 10-3/4 percent annual rate in the second quarter. This is about the same pace as in the first quarter, but well above the increase recorded over 1979. Combined with the cyclical downturn in productivity, the rise in compensation pushed the rate of increase in unit labor costs up to a 15-1/2 percent annual rate.

In July, wages for nonfarm production workers, as measured by the index of average hourly earnings, rose 0.2 percent following a 1.0 percent rise in June. Although monthly changes in the hourly earnings index are quite volatile and subject to upward revision, over longer periods this measure tends to be a good indicator of underlying wage pressures. In the second quarter the index increased at a 9.7 percent annual rate, about 1-1/2 percentage points higher than last year, with a particularly sharp acceleration in the rate of rise in manufacturing wages.

Wage adjustments negotiated in major collective bargaining settlements (those covering 1,000 or more workers) also accelerated somewhat in the first half of 1980. For all major agreements reached in the first 6 months of 1980, first-year wage increases, excluding potential gains under cost-of-living (COLA) clauses, averaged 8.5 percent, compared with 7.4 percent in 1979. In contracts that include COLA provisions, average first-year increases were slightly above the 6-1/4 percent rise in 1979. However, in agreements without COLA clauses, the average first-year increase was 11 percent--well above the 9 percent increase last year; this acceleration probably reflects large "catch-up" increases for the real income losses under expiring contracts that

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

	1978	1979	1980 Q1	1980 Q2	1980 June	1980 July
Total private nonfarm	8.4	8.1	9.8	9.7	11.8	2.8
Manufacturing	8.4	8.7	9.9	12.6	15.2	9.0
Durable	8.5	8.7	10.7	13.5	16.6	8.7
Nondurable	8.3	8.8	8.6	10.8	12.8	9.5
Contract construction	7.6	6.8	5.0	8.9	6.0	8.4
Transportation and public utilities	7.4	9.1	7.7	9.2	10.3	-3.7
Total trade	9.6	7.6	12.2	6.2	7.6	5.8
Services	7.6	7.7	8.8	9.9	14.1	-4.2

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes are from final quarter of preceding period to final quarter of period indicated, except monthly changes which are from preceding month; monthly changes are not compounded.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Percent change at annual rates)

	Average adjustment				
	1976	1977	1978	1979	First 6 months 1980
Wage-rate settlements (1,000 or more workers)					
First year adjustments	8.4	7.8	7.6	7.4	8.5
Average over life of contracts[1]	6.4	5.8	6.4	6.0	6.7
Wage and benefit settlements (5,000 or more workers)					
First year adjustments	8.5	9.6	8.3	9.0	9.6
Average over life of contracts[1]	6.6	6.2	6.3	6.6	6.8
Effective wage-rate adjustments (1,000 or more workers)	8.1	8.0	8.2	9.1	4.0
Current settlements	3.2	3.0	2.0	3.0	1.1
Prior settlements	3.2	3.2	3.7	3.0	1.7
Escalator provisions	1.6	1.7	2.4	3.0	1.2

1. Excluding cost-of-living adjustments.

did not have cost-of-living protection. In all contracts with COLA clauses in effect during the first half of 1980, escalator adjustments on average boosted wage gains 4 percent (not at an annual rate) in addition to other negotiated pay increases.

APPENDIX A*

THE PRESIDENT'S JULY MID-SESSION REVIEW OF THE 1981 BUDGET

Current Budget Estimates: An Overview

On July 21, the Administration released its revised budget estimates for fiscal years 1980 and 1981. Table 1 shows that the deficit in the current fiscal year is now expected to be around $61 billion, up by over $20 billion from both the January and the March estimates. For fiscal year 1981, the budget outlook also has been revised substantially to reflect the impact of the recession on the budget. Instead of the $16 billion surplus that was expected in March, the administration now projects a deficit of $30 billion, even without a tax cut proposal.

Economic Assumptions

Since economic conditions significantly affect budget expenditures and receipts, the economic forecasts which accompanied the July review provide a useful starting point for analyzing the July budget estimates. Table 2 shows that the Administration now expects that economic growth in 1980 will be substantially slower than was forecast in March. Specifically, real GNP is expected to decline by 3.1 percent over the four quarters of 1980, as compared to the 0.4 percent decline expected in March. An economic recovery is projected to begin in the final period of this year, with real GNP climbing 2.6 percent between the final quarter of 1980 and the fourth quarter of 1981. The recession and slow recovery is expected to result in an unemployment rate that reaches 8.5 percent in the fourth quarter of 1980 and remains at that level through 1981. The Administration also expects the rate of inflation to moderate from the high rates experienced during the first half of 1980. Measured fourth quarter over fourth quarter, the consumer price index is expected to decline from a 12 percent annual rate of increase during 1980 to a 9.8 percent rate during 1981. The Office of Management and Budget indicated that about one-half percentage point of the expected 1981 CPI increase is due to the President's proposed tax on motor fuels which would become effective on June 1, 1981.

The Effect of the Recession on the Budget

A recession affects both budget receipts and expenditures. There is a fall-off in the pace of tax collections, while at the same time, unemployment benefits and other income security payments rise in response to higher jobless rates. These automatic responses of the budget to the recession combine to increase the size of the deficit. The magnitude of the budget's automatic response to a recession can be measured in a rough way by taking the difference between the actual

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Table 1
HISTORY OF ADMINISTRATION BUDGET ESTIMATES
(Fiscal years; billions of dollars)

	1980			1981		
	January[1] est.	March[2] est.	July[3] est.	January[1] est.	March[2] est.	July[3] est.
Receipts	523.8	523.4	517.9	600.0	628.0	604.0
Outlays	563.6	568.9	578.8	615.8	611.5	633.8
Deficit(-)	-39.8	-36.5	-60.9	-15.8	+16.5	-29.8

1. The Budget of the United States Government, Fiscal Year 1980, January 1980.
2. 1981 Budget Revisions, March 1980.
3. Mid-Session Review of 1981 Budget, July 21, 1980

Table 2
COMPARISON OF ADMINISTRATION'S ECONOMIC FORECASTS
(Calendar years; billions of dollars)

	1980		1981	
	March Estimates	Current Estimates	March Estimates	Current Estimates
Gross National Product				
Current Dollars:				
Amount	2,621	2,557	2,885	2,821
Percent change (fourth quarter over fourth quarter)	10.0	6.7	11.4	12.6
Constant (1972) dollars:				
Amount	1,442	1,412	1,449	1,416
Percent change (fourth quarter over fourth quarter)	-0.4	-3.1	2.2	2.6
Prices (percent change)				
GNP deflator (fourth quarter over fourth quarter)	10.4	10.1	9.1	9.7
CPI (Dec. over December)	12.8	12.0	9.0	9.8
Unemployment rate (percent)				
Total:				
Yearly average	6.7	7.6	7.3	8.5
Fourth quarter	7.2	8.5	7.3	8.5
Interest rate, 91-day Treasury bills[1]	13.1	9.2	9.5	9.0

1. Average rate of new issues within period.

budget deficit which contains both automatic and discretionary changes in the budget and the high employment budget which measures only discretionary fiscal policy initiatives. As can be seen in table 3, the FY-1980 movement in this difference--the automatic response of the budget to the recession--now is estimated to be $33 billion.[1]

Fiscal Year 1980

As indicated earlier, the Administration is now anticipating a much sharper decline in economic activity during 1980 than was anticipated in the March Budget Update. Partly because of this, the OMB now estimates that fiscal year 1980 receipts will be $517.9 billion, down $14-1/2 billion from the level predicted in March. The new estimate for outlays is $578.8 billion--$10 billion above the March estimate. As Table 4 shows, approximately two-thirds or $10.7 billion of the receipts revision is due to revised income projections. The most significant tax policy change was Congressional repeal of the President's $4.62 per barrel oil import fee. This action lowered fiscal 1980 receipts by $3.4 billion.

On the outlay side, the recession and the resulting rise in unemployment increased fiscal year 1980 income security payments by $3.8 billion. (See Table 5.) Other factors which affected the spending total included:

(1) Loans to ailing financial institutions by the FSLIC and the FDIC and slower asset sales by GNMA ($2.0 billion).

(2) Higher defense spending because of a rise in fuel costs and an increase in progress payments on outstanding contracts ($1.6 billion.)

(3) Increased disaster and refugee relief resulting from the Mount Saint Helens volcano, the new Cuban/Haitian entrants and the Miami civil disorders ($0.9 billion).

The Administration's fiscal year 1980 spending forecast ($579 billion) is just slightly above the $578 billion total that now is projected by the FRB staff. As can be seen in Table 6, the Mid-Session Review over-estimated actual outlays in seven out of the last eight years and these errors have averaged around $2 billion. The July review for fiscal year 1975, however, understated actual outlays by more than $1 billion and this was due to the unexpected severity of the decline in economic activity associated with the 1974-1975 recession.

1. High employment, in this case, is assumed to be consistent with a 5.1 percent unemployment rate.

Table 3
EFFECT OF THE RECESSION ON THE FISCAL YEAR 1980 BUDGET[1]

Item	FY'79 to FY'80
Increase in NIA budget deficit	-28.6[2]
Less	
Change in high employment budget (discretionary fiscal actions)	4.3
Equals	
Automatic change in budget due to slowdown in economic activity	32.9

1. August Greenbook estimate.
2. The negative refers to an increase in the deficit.

Given this past history of over-estimating outlays, the FRB staff projects some small shortfall ($1 billion) from the Administration's July estimates during the remainder of this fiscal year.

Fiscal Year 1981

The Administration's current estimate of fiscal year 1981 receipts is $604 billion, $24 billion below the March forecast (See Table 4). Downward revised estimates of individual and corporate incomes reduced receipts by $18-1/2 billion. In addition, Congressional rejection of the oil import fee lowered fiscal 1981 receipts by $12.6 billion but some of this loss is offset by the Administration's proposal to impose a 10 cent per gallon tax on gasoline and diesel fuels effective June 1, 1981, and by technical re-estimates.

Fiscal year 1981 outlays are now estimated by the Administration to be $633.8 billion, up $22 billion from the "March Update". A glance at Table 5 reveals that many of the same programs whose estimates were revised upward for fiscal year 1980 continue to be revised higher in the coming fiscal year, most notably, unemployment compensation, defense, and disaster assistance.

Comparison of Administration's Fiscal Year 1981 Budget Totals with Recent CBO Re-estimates

Finally, OMB and CBO budget estimates are compared in Table 7. The CBO projects the fiscal year 1980 deficit at $63 billion, about $2 billion higher than the Administration's outlook and $16 billion higher than the revised second concurrent resolution. This later difference is due primarily to the effect of the recession on the CBO budget estimates. In the CBO's outlook, the unemployment rate may average around 9 percent at the end of both 1980 and 1981. (See Table 8.) Specifically, the CBO now estimates that, with the policies of the first resolution (no tax cut), the 1981 budget would be in deficit by about $30 billion. Hence, the Administration and the CBO estimates for fiscal 1981 are essentially the same.

Table 4
CHANGES IN REVENUE PROJECTIONS AND PROPOSED INITIATIVES

	1980	1981
Administration's March revenue forecast[1] (including initiatives)	$532.4	$628.0
Revisions for the July budget due to latest income forecast	-10.7	-18.4
Technical re-estimates	0.6	2.8
New initiatives:		
Oil import fee (rejected by Congress)	-3.4	-12.6
Gasoline diesel fuels tax effective 6/1/81	--	3.4
Other initiatives[2]	-1.0	0.8
Administration's July revenue forecast (including initiatives)[3]	517.9	604.0

1. Fiscal Year 1980 Budget Revisions, March 1980.
2. Delay in enactment date of foreign tax credit on oil and natural gas.
3. Mid-Session Review of the 1980 Budget, July 1981.

Table 5
COMPARISON OF SUCCESSIVE ADMINISTRATION OUTLAY ESTIMATES: MARCH AND JULY
(Fiscal years; billion of dollars)

	1980	1981
March budget estimate including proposed reductions	568.9	611.5
July revisions due to economic assumptions:	5.8	10.1
Income security (mainly unemployment benefits)	(3.8)	(10.0)
Mortgage credit and thrift insurance	(2.0)	(0.1)
July revisions due to reestimates	4.1	12.2
Defense	(1.6)	(6.9)
Disaster and refugee assistance	(0.9)	(1.1)
Other	(1.6)	(4.2)
July Update budget estimates: Grand Total	578.8	633.8

Table 6
COMPARISON OF MID-SESSION FORECAST WITH ACTUAL BUDGET OUTLAYS
(Fiscal years; billions of dollars)

Fiscal Year*	Mid-Session Forecast	Actual	Error in $ Billions	Error in Percent
1972	233.1	232.0	-1.1	-.5
1973	250.4	247.1	-3.3	-1.3
1974	270.7	269.6	-1.1	-.4
1975	325.1	326.2	1.1	+.3
1976	369.1	366.4	-2.7	-0.7
1977	407.3	402.8	-4.5	-1.1
1978	452.3	450.8	-1.5	-0.2
1979	496.2	493.7	-2.5	-0.5
Avg. error			-1.9	-0.6

* Transition quarter omitted.

Table 7
COMPARISON OF PROJECTED FEDERAL BUDGET TOTALS: CBO AND OMB
(Billions of dollars, fiscal years)

	1980			1981		
	Revised second res.	CBO est. based on action to date	Admin. July est.	First con-current res.	CBO est. with policies of first con-current res.	Admin. July est.
Receipts	525.7	517	517.9	613.8	602.5	604.0
Outlays	572.7	580	578.8	613.6	632.5	633.8
Deficit (-) or surplus (+)	-47.0	-63	-60.9	+0.2	-30.0	-29.8

* Mid-point of CBO range.
SOURCE: Congressional Budget Office.

Table 8
CBO ECONOMIC PROJECTIONS FOR CALENDAR YEARS 1980 AND 1981, BASED ON POLICIES OF THE FIRST BUDGET RESOLUTION FOR FISCAL YEAR 1981

	1978:4 to 1979:4 (actual)	1979:4 to 1980:4*	1980:4 to 1981:4*
Nominal GNP (percent change)	9.9	5.75	12.5
Real GNP (1972 dollars, percent change)	1.0	-3.3	3.5
General Price Index, GNP Deflator (percent change)	8.9	9.3	8.7
Unemployment Rate; End of Period (percent)	5.9	8.9	8.9

* Mid-point of CBO range.
SOURCE: Congressional Budget Office.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data: Period	Latest data: Level	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
	$ billions		Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	July	40.1	2.5	-0.1	5.4
Nonborrowed reserves	July	39.8	2.7	22.0	7.7
Money supply					
M-1A	July	373.7	7.8	6.6	3.2
M-1B	July	394.5	11.1	8.2	4.5
M-2	July	1606.7	16.3	14.7	8.7
M-3	July	1860.2	10.6	10.8	8.8
CB Gross Time and savings deposits	July	692.9	2.4	2.5	9.5
Total Thrift deposits (S&Ls + MSBs + Credit Unions) Total	July	685.6	6.7	8.0	5.6
Bank credit	June	1155.0	-2.8	-6.1	6.6

Indicator		Latest data: Period	Latest data: Percent or index	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	7/23/80	8.68	-.41	-.78	-1.95
Treasury bill (90 day)	" "	7/30/80	8.19	1.07	-2.98	-1.15
Commercial paper (90-119 day)	" "	7/30/80	8.42	.34	-4.61	-1.54
New utility issue Aaa	" "	8/1/80	11.93	.43	-.17	2.41
Municipal bonds (Bond Buyer) 1 day	1 day	7/31/80	8.59	.83	.48	2.40
FNMA auction yield (FHA/VA)		7/21/80	12.78	.50	-1.25	2.13
Dividend price ratio (common stocks)	wk. endg.	7/30/80	5.12	-.17	-.46	-.10
NYSE index (12/31/65=50)	end of day	8/5/80	69.16	2.09	8.66	9.71

Indicator	Net Change or Gross Offerings: Period	Latest data	Year ago	Year to date: 1980	Year to date: 1979
Credit demands					
Business loans at commercial banks[1]	June	-1.2	3.8	6.0	23.7
Consumer instalment credit outstanding[1]	May	-3.4	3.3	-0.3	17.6
Mortgage debt outstanding (major holders)[1 2]	May	1.9	9.1	26.2	42.7
Corporate bonds (public offerings)	June	7.0e	4.2	23.4e	13.7
Municipal long-term bonds (gross offerings)	July	4.6e	3.4	27.8e	24.7
Federally sponsored agcy. (net borrowing)	June	.4	2.1	14.2	11.8
U.S. Treasury (net cash borrowing)	June	-4.6	-1.4	24.5	6.0

1/ Seasonally adjusted.
2/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.
e - Estimated.

The monetary aggregates continued to grow rapidly in July, though at a somewhat slower pace than in June. The recent resurgence in monetary growth has brought the level of M-1A closer to the lower end of its longer-run FOMC target range, the level of M-1B to its lower limit, and the level of M-2 to near its upper bound. During the first weeks following the July FOMC meeting, federal funds averaged between 8-1/2 and 9 percent as nonborrowed reserve availability was sufficient to hold adjustment borrowings at the discount window to frictional levels. In the closing days of July, however, reserve positions tightened and the funds rate moved toward 10 percent--the level of the recently lowered discount rate.

Other market interest rates rose with the funds rate. The increase in rates was given added impetus by investors' concern about the implications of upward revisions in projections of the federal deficit, discussion of a possible tax cut, indications of a bottoming out of activity in some sectors of the economy, and the accelerated growth of the monetary aggregates. Since the July meeting, most market rates of interest have risen 1/2 to 3/4 of a percentage point. In contrast, the bank prime rate fell an additional 1/2 of a percentage point in July to its lowest level since 1978, and interest rates on new home mortgage loan commitments at savings and loans leveled out last month after declining more than 4 percentage points from their peak in April. Thus, spreads of both of these administered rates over market rates narrowed markedly.

Aggregate credit demands by the domestic nonfinancial sectors may have begun to firm recently as the recession in economic activity has

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent)

	1979[1]	1980				Change from:		
	FOMC Oct. 5	Mar-Apr. High	Mid-June** Low	FOMC July 9	Aug. 5	Mar-Apr. High	Mid-June Low	FOMC July 9
Short-term rates								
Federal funds[2]	11.91	19.39	8.99	9.26	9.93p	-9.46	.94	.67
Treasury bills								
3-month	10.70	16.00	6.18	7.97	8.72	-7.28	2.54	.75
6-month	10.63	15.64	6.60	7.90	8.72	-6.92	2.12	.82
1-year	10.28	14.58	7.00	7.78	8.60	-5.98	1.60	.82
Commercial paper								
1-month	11.73	18.00	7.98	8.45	8.96	-9.04	.98	.51
3-month	11.86	17.69	7.78	8.32	8.81	-8.88	1.03	.49
6-month	11.84	17.25	7.59	8.19	8.73	-8.52	1.14	.54
Large negotiable CDs[3]								
1-month	12.09	17.87	7.96	8.59	9.21	-8.66	1.25	.62
3-month	12.50	18.59	7.90	8.65	9.31	-9.28	1.41	.66
6-month	12.80	18.47	7.66	8.60	9.38	-9.09	1.72	.78
Eurodollar deposit[2]								
1-month	12.45	19.04	8.88	9.06	9.83	-9.21	.95	.77
3-month	12.79	19.60	8.99	9.23	10.09	-9.51	1.10	.86
Bank prime rate	13.50	20.00	12.00	11.50	11.00	-9.00	-1.00	-.50
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	10.01	14.53	8.56	9.11	9.89	-4.64	1.33	.78
10-year	9.60	13.65*	9.47	10.14	10.70	-2.95	1.23	.56
30-year	9.36	12.85*	9.49	10.14	10.69	-2.16	1.20	.55
Municipal (Bond Buyer)[4]	6.64	9.44	7.44	7.88	8.59	-.85	1.15	.71
Corporate Aaa								
New issue[5]	10.22	14.22	10.53	11.50	11.93p	-2.29	1.40	.43
Recently offered[6]	10.25	14.12	10.79	11.18	11.95p	-2.17	1.16	.77
Primary conventional mortgages[6]	11.35	16.35	12.35	12.18	12.25	-4.10	-.10	.07

	FOMC Oct. 5	Mar-Apr. Low	Mid-June High	FOMC July 9	Aug. 5	Mar-Apr.	Mid-June	FOMC July 9
Stock prices								
Dow-Jones Industrial	897.61	759.13	881.91	897.27	929.78	170.65	47.87	32.51
NYSE Composite	63.39	55.30	66.36	67.46	69.16	13.86	2.80	1.70
AMEX Composite	235.15	215.69	297.60	307.27	310.90	95.21	13.30	3.63
NASDAQ (OTC)	152.29	124.09	159.18	164.09	172.52	48.43	13.34	8.43

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. Averages for preceding week.
6. One-day quotes for preceding Friday.
*--Highs reached on February 26.
**-Most lows occurred on or around June 13.
p--preliminary

slowed. In the household sector, consumer installment credit outstanding is estimated to have declined substantially in June, but available data for large banks suggest a smaller decline in July. Meanwhile, mortgage lending appears to have turned up at banks in July, and outstanding loan commitments at S&Ls rose in June for the first time since last September. In the nonfinancial business sector, although commercial paper issuance appears to have slowed in July, business loans at commercial banks may have expanded slightly following a near record drop in the second quarter. In addition, financing in the corporate stock and bond markets has continued sizable. In the public sector, Treasury and agency borrowing jumped markedly in July, on a seasonally adjusted basis, and state and local government financing picked up slightly.

Monetary Aggregates and Bank Credit

Growth in M-1A slowed from an 11-1/2 percent annual rate in June to a 7-3/4 percent rate in July. M-1B registered a comparable deceleration, but its growth in July remained well in excess of that for the narrower measure of transaction balances. Other checkable deposits grew $1-1/4 billion for the second straight month. This large June-July increase occurred entirely at commercial banks, mostly at those outside the Northeast. Many such institutions apparently are promoting ATS accounts in order to establish strong competitive positions in the market for interest-bearing household transaction balances in anticipation of the nationwide extension of NOW accounts at year-end; however, a good deal of the growth in ATS balances could simply be a reflection of the general strengthening of flows into savings accounts.

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1979 Q4	1980 Q1	1980 Q2	1980 May	1980 June	1980 July[e]	July '79 to July '80[e]
	---- Percentage change at annual rates ----						
Money stock measures							
1. M-1A	4.5	4.8	-3.9	0.7	11.4	7.8	3.2
2. M-1B	5.0	5.9	-2.4	-1.6	14.9	11.1	4.5
3. M-2	7.1	7.2	5.4	9.8	17.5	16.3	8.7
4. M-3	9.1	7.8	5.7	8.9	12.8	10.6	8.8
Selected components							
5. Currency	8.5	8.3	7.0	12.1	9.8	10.8	9.2
6. Demand deposits	2.9	3.4	-8.5	-4.6	12.6	6.5	0.9
7. Other checkable deposits, NSA[2]	12.6	29.3	31.8	-37.9	78.3	73.5	35.1
8. M-2 minus M-1B (9+10+11+14)	7.8	7.7	8.1	13.5	18.4	18.0	10.1
9. Overnight RPs and Eurodollars, NSA[3]	-33.1	-7.5	-72.0	59.1	78.9	206.2	-6.7
10. Money market mutual fund shares, NSA	120.0	151.9	82.7	127.2	132.9	82.5	183.2
11. Commercial banks	8.6	6.9	9.8	5.6	10.9	13.5	9.5
12. savings deposits	-16.5	-19.3	-22.6	-7.5	32.9	38.0	-10.0
13. small time deposits	32.1	29.1	33.9	14.1	-3.1	-2.6	28.4
14. Thrift institutions	3.7	-0.3	3.6	6.4	9.7	6.9	3.5
15. savings deposits	-26.0	-22.5	-27.4	-21.5	19.5	20.3	-16.6
16. small time deposits	22.3	12.0	19.5	19.0	5.7	0.8	16.4
17. Large time deposits	28.3	17.8	10.6	4.1	-22.0	-29.1	13.2
18 at commercial banks, net[4]	20.2	9.9	7.4	-1.2	-25.9	-35.1	6.8
19. at thrift institutions	90.8	72.6	28.9	34.4	0.0	3.3	65.1
20. Term RPs, NSA	-16.0	-31.9	-19.4	0.0	44.3	17.1	-10.9
	—Average monthly change in billions of dollars—						
MEMORANDA:							
21. Managed liabilities at commercial banks (22+23)	-1.6	8.0	-7.5	-2.4	-14.3	n.a.	n.a.
22. Large time deposits, gross	2.0	3.1	0.0	1.7	-5.0	-3.7	1.7
23. Nondeposit funds	-3.6	4.9	-7.5	-4.1	-9.3	n.a.	n.a.
24. Net due to related foreign institutions, NSA	-2.5	1.6	-6.0	-3.6	-8.2	n.a.	n.a.
25. Other[5]	-1.1	3.3	-1.5	-0.5	-1.0	n.a.	n.a.
26. U.S. government deposits at commercial banks[6]	-1.0	-0.2	0.4	0.8	-0.8	2.1	-0.4

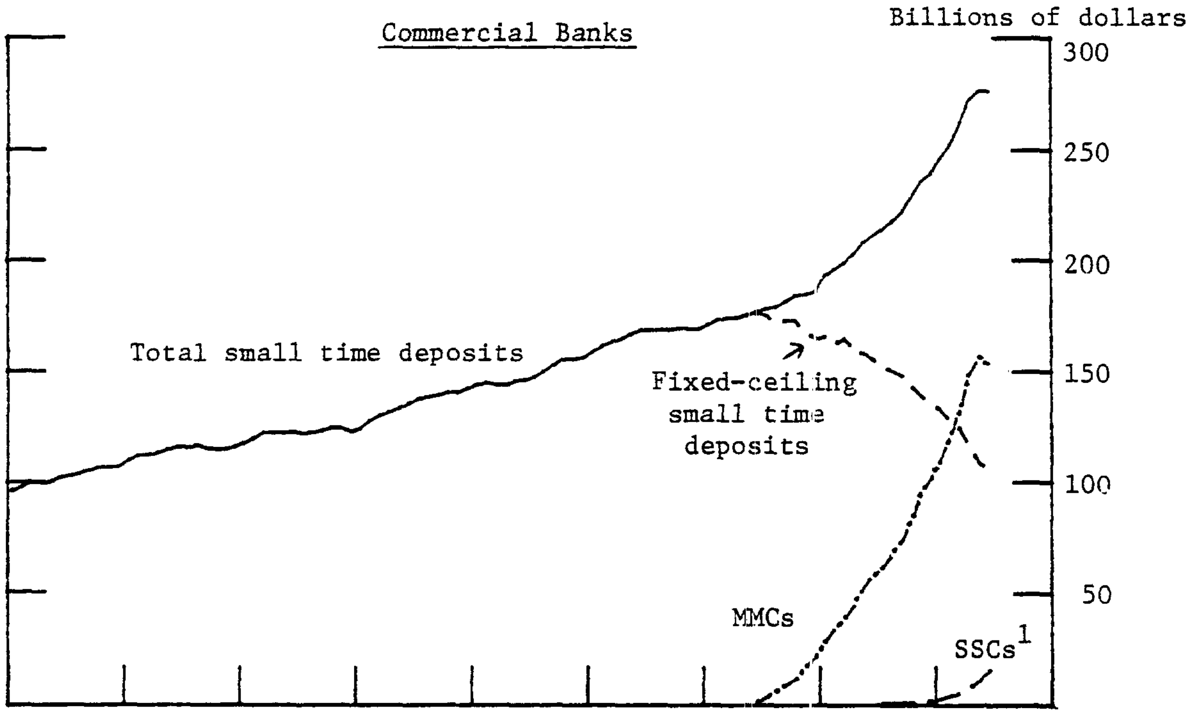
1. Quarterly growth rates are computed on a quarterly average basis.
2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loans RPs, and other minor items.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
e—estimated. n.a.—not available.

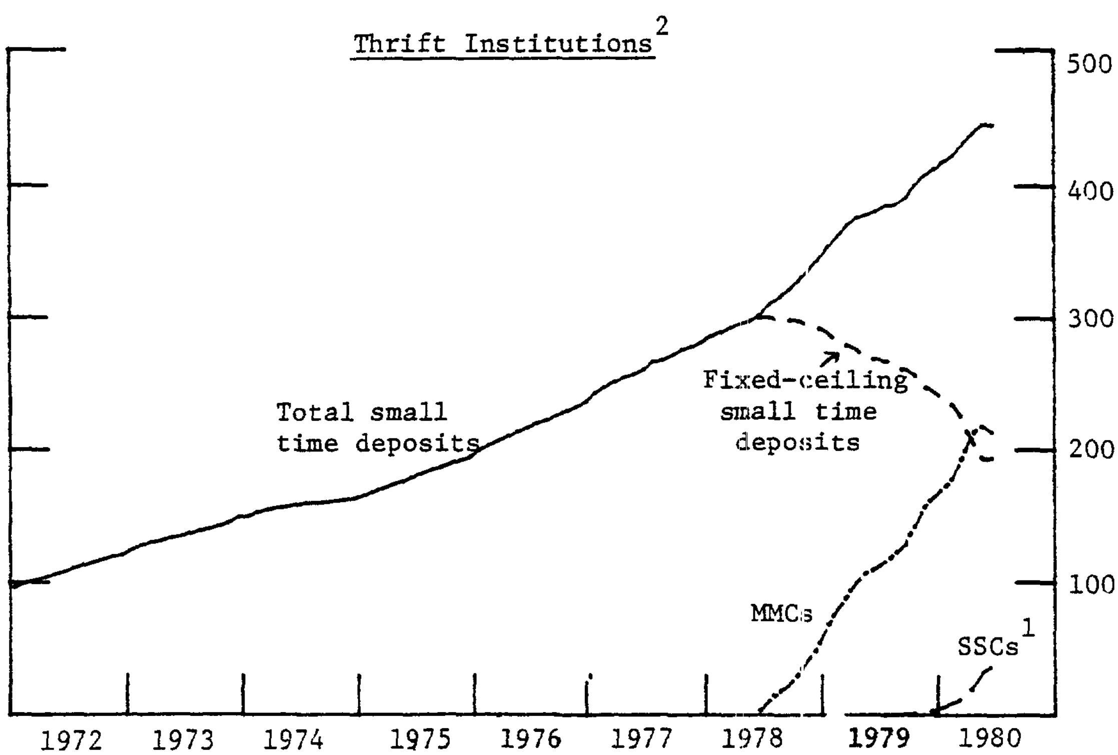
Growth in M-2 continued very rapid during July--at an annual rate of 16-1/4 percent--as the expansion of its nontransaction component roughly matched the pace of the previous month. Overnight RPs, money market mutual funds shares, and savings deposits all registered sizable increases. At both commercial banks and thrift institutions, inflows to savings deposits surpassed even the June surge, which had marked the end of a year of substantial net withdrawals.

Small time deposits, in contrast, registered a slight net outflow in July, following only a small increase in the preceding month. Available evidence suggests that the contraction in MMC balances has continued. Until late spring, inflows of MMCs had more than accounted for the rapid growth in small time deposits at commercial banks and thrifts, and had raised the outstanding stock of MMCs above the declining stock of fixed ceiling small time deposits at both types of institution. (See chart on page III-6.) Then, during June, MMCs declined about $9 billion on a monthly average basis, nearly matching the stepped-up inflows to higher-yielding SSCs, while outflows of fixed ceiling small time deposits virtually ceased. During the first 20 days of July, a $4-3/4 billion net inflow of SSCs at S&Ls was offset by a $5 billion net outflow of MMCs.

The halt in the growth of small time deposits with ceilings tied to rates on Treasury securities--at a time when savings deposits and other more liquid investments are expanding rapidly--may reflect both lower yields and uncertainty among households about the economic and financial outlook. The declining attractiveness of Treasury bill rates to small investors also is suggested by a drop in noncompetitive tenders at weekly bill auctions.

SMALL TIME DEPOSITS AT DEPOSITORY INSTITUTIONS
(Monthly average basis, not seasonally adjusted)





1. SSCs include 4-year and over variable-ceiling accounts issued between July 1 and December 31, 1979 and 2-1/2-year and over variable-ceiling accounts issued since January 1, 1980.
2. Includes S&Ls, MSBs, and CUs. SSC and MMC data are for MSBs and S&Ls only.

Partial data for July suggest a resumption of bank credit expansion after three months of decline. The growth of security holdings accelerated from the already rapid pace of May and June, and loan portfolios are estimated to have changed little following the record second-quarter drop. Business loans apparently registered a marginal increase, with growth at large banks offsetting continued contraction at small banks; a more competitive prime rate relative to open market rates may have been a contributing factor in the upturn. While real estate loans evidently grew at the fastest pace since March, after a small decline in June, security loans probably fell for the tenth consecutive month. Loans to individuals fell in the first three weeks of July at large banks, though less rapidly than in May and June.

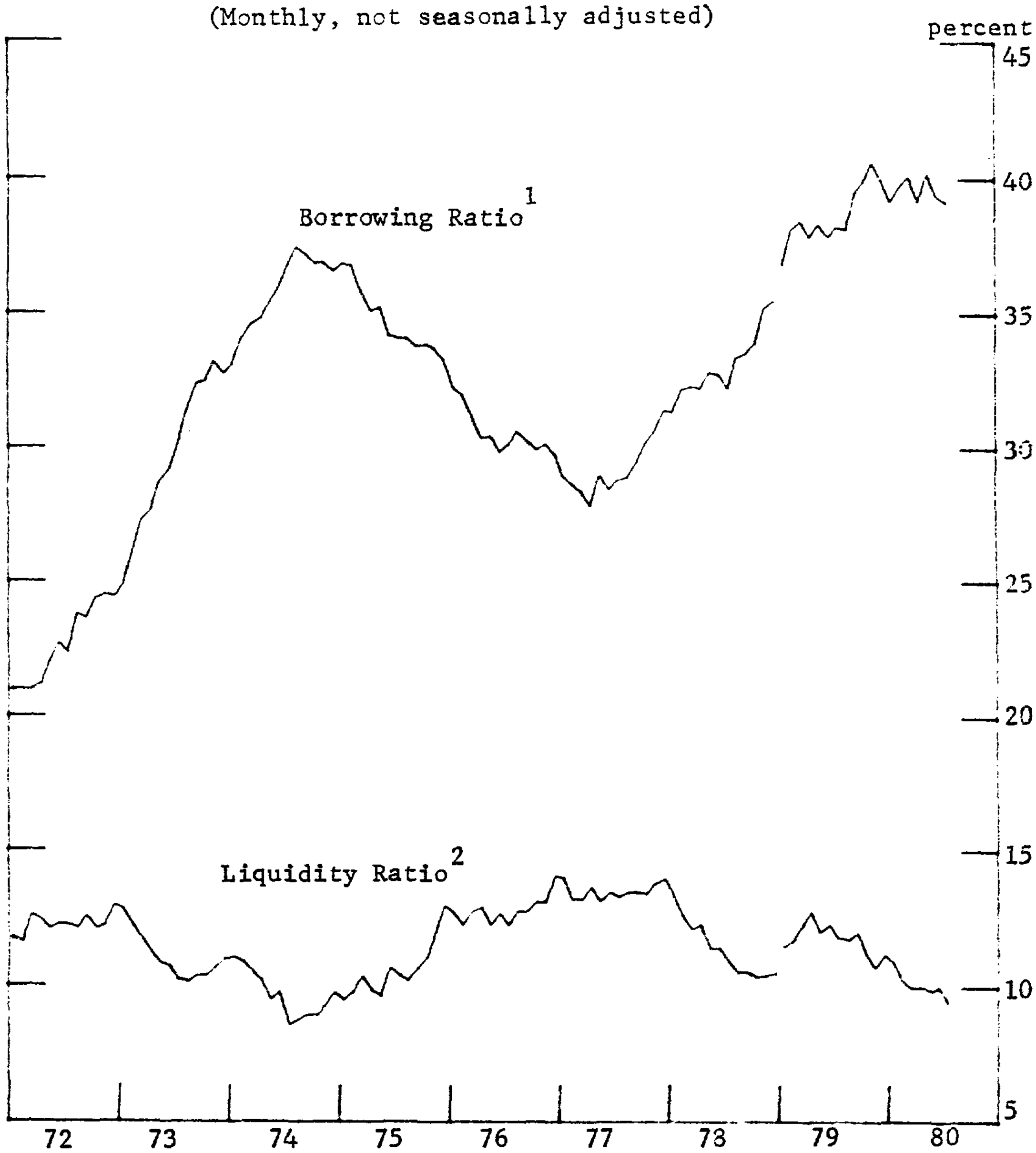
Commercial banks appear to have reduced slightly further their managed liabilities in July, reflecting the continued strength in core deposits, a jump in government deposits, and the limited loan demands apparent in partial data. Large time deposits continued to run off, and available data for member banks indicate a further decline in net Euro-dollar borrowing; the decline in these liabilities more than offset an increase in other borrowing, particularly RPs. As a result, the borrowing ratio at large commercial banks dropped further during the first three weeks of July to 1-1/2 percentage points below the peak of last November. (See chart on page III-9.) The liquidity ratio of large banks dropped during the first three weeks of July to 9.4 percent (not seasonally adjusted), its lowest level since October 1974, primarily reflecting declines in loans to securities dealers, in gross sales of federal funds, and in securities held in trading accounts.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

		1979	1980					June '79 to
		Q4	Q1	Q2e	Apr.	May	Junee	June '80e
		Commercial Bank Credit						
1.	Total loans and investments at banks[2]	3.4	11.5	-4.4	-4.3	-6.1	-2.8	6.6
2.	Investments	3.5	7.3	10.6	-4.5	20.3	15.9	7.7
3.	Treasury securities	-5.9	3.0	10.6	-16.5	18.0	30.4	2.3
4.	Other securities	8.3	9.4	11.2	1.2	21.4	10.8	10.7
5.	Total loans[2]	3.4	12.8	-9.5	-4.2	-15.0	-9.5	6.3
6.	Business loans	6.0	16.4	-7.9	-5.1	-13.9	-4.8	9.5
7.	Security loans	-88.5	-32.8	-26.2	-21.4	-50.9	-7.6	-31.7
8.	Real estate loans	14.2	11.9	1.0	2.4	2.4	-1.9	10.9
9.	Consumer loans	5.5	3.7	-18.7p	-14.3	-25.7	-25.6p	-1.4p
		Short- and Intermediate-Term Business Credit						
10.	Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	6.4	22.0	4.1	0.3	3.7	8.2	15.7
11.	Business loans net of bankers acceptances[1]	6.3	17.6	-8.8	-4.9	-16.3	-5.4	9.4
12.	Commercial paper issued by nonfinancial firms[3]	15.5	76.2	86.9	37.7	119.7	87.7	76.8
13.	Sum of lines 11 & 12	7.0	23.1	1.3	-0.4	-1.4	5.8	15.0
14.	Finance company loans to business[4]	4.0	-2.8	-4.0	0.0	-5.1	-6.9	1.6
15.	Total bankers acceptances outstanding[4]	4.6	54.1	33.9	4.8	50.7	44.0	47.9

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

BALANCE SHEET RATIOS AT LARGE COMMERCIAL BANKS
(Monthly, not seasonally adjusted)



1. Monthly averages of Wednesdays. The last figure, for July 1980, excludes the last Wednesday of the month. The numerator includes gross liabilities of banks to their foreign branches, all large time deposits, net federal funds purchased, and borrowings from other than the Federal Reserve. The denominator is total assets less federal funds sold and cash items in the process of collection.

2. Monthly averages of Wednesdays. The last figure, for July 1980, excludes the last Wednesday of the month. The numerator, liquid assets, includes Treasury and other securities maturing in one year or less, loans to brokers and dealers and domestic commercial banks, holdings of bankers acceptances and gross sales of federal funds. Beginning in 1979, the numerator also includes commercial paper, all trading account securities, as well as investment securities maturing in one year or less. The denominator is total liabilities excluding capital accounts, valuation reserves, and demand deposits due to banks.

NOTE: Beginning with January 1979, all large banks include those banks with assets of $750 million or more on December 31, 1977. While the number of banks reporting has been reduced from 317 to 171, the share of assets for the banking system as a whole is only slightly below that of the former panel. This applies to both the liquidity and borrowing ratios.

As at commercial banks, stronger inflows of core deposits and weak lending have permitted savings and loan associations to reduce their borrowing. During the second quarter, S&Ls repaid a substantial amount of advances from Federal Home Loan Banks and reduced other indebtedness; in June, the ratio of borrowings to total assets was substantially below the level reached early in the year, though it was still well above the previous cyclical peak registered in 1974. S&Ls also increased their holdings of liquid assets during the second quarter, raising the liquidity ratio at insured S&Ls to its highest level since September 1979. Mutual savings banks increased their liquidity ratio slightly during the spring, but their borrowing rose as well.

Business Finance

Business credit demands have continued to be focused on long-term markets in July, as the sum of bank business loans and commercial paper of nonfinancial firms grew only slightly on a monthly average basis. Gross public offerings of corporate notes and bonds totaled about $4.7 billion, seasonally adjusted, in July, down considerably from the previous month's total but still very high by past standards. The reduced overall pace of public offerings mainly reflected a smaller slate of issues by financial concerns, as bond issuance by utilities and industrial firms was only a bit below the June volume. Despite the record volume of publicly offered bonds in the second quarter, the estimated ratio of short-term to long-term debt at nonfinancial corporations is still only slightly below the all-time peak. (See chart on page III-12.)

On balance, net funds raised in markets by nonfinancial corporations slipped in the second quarter to the smallest total since the

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

	1980				
	Q1	Q2p	Junep	Julyp	Aug.f
	-------- Seasonally adjusted --------				
Corporate securities--total	5,220	7,555	8,075	6,700	7,575
Publicly offered bonds	1,895	5,570	6,350	4,700	5,575
Privately placed bonds	1,740	925	800	800	800
Stocks	1,585	1,060	925	1,200	1,200
	------ Not seasonally adjusted ------				
Publicly offered bonds--total	1,954	5,843	7,000	5,300	5,000
By quality (Moody's)					
Aaa and Aa	1,020	3,230	4,000	2,700	--
Less than Aa (or unrated)	934	2,613	3,000	2,600	--
By type of borrower					
Utility	1,175	1,305	1,375	900	--
Industrial	440	2,963	3,575	3,500	--
Financial	339	1,575	2,050	900	--

p--preliminary. f--forecast.

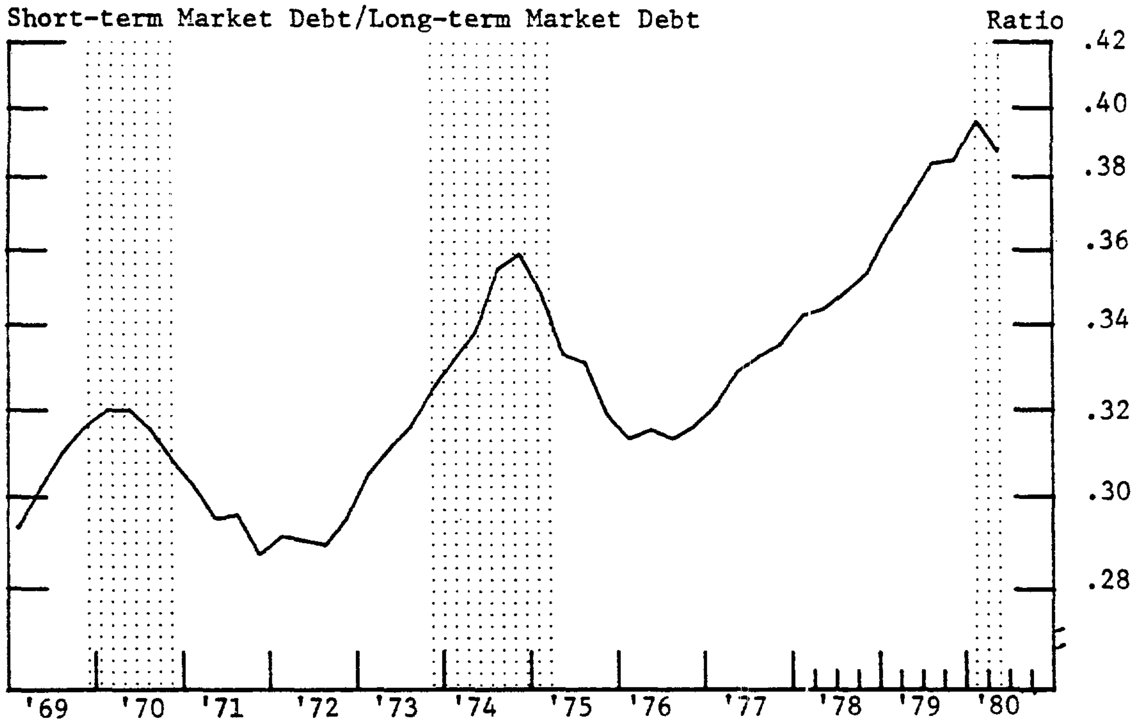
COMPOSITION OF FINANCING BY NONFINANCIAL CORPORATIONS
(Seasonally adjusted annual rates, in billions of dollars)

	1978	1979		1980	
	Year	H1	H2	Q1	Q2p
Capital expenditures	196	223	225	232	221
Gross internal funds	149	157	160	152	152
Financing gap	47	66	65	80	69
Net funds raised in markets	95	120	109	124	67
Commercial paper	3	8	10	24	28
Acceptances	1	1	1	5	1
Finance co. loans	8	12	2	-1	-2
Bank loans n.e.c.[1]	33	46	45	47	-24
Notes and bonds	24	26	23	22	49
Mortgages	23	24	24	20	8
Equity issues	3	3	4	8	6
Financial uses of funds, net	48	54	44	44	-2
Liquid assets	10	17	21	44	-28
Other[2]	38	37	23	--	26

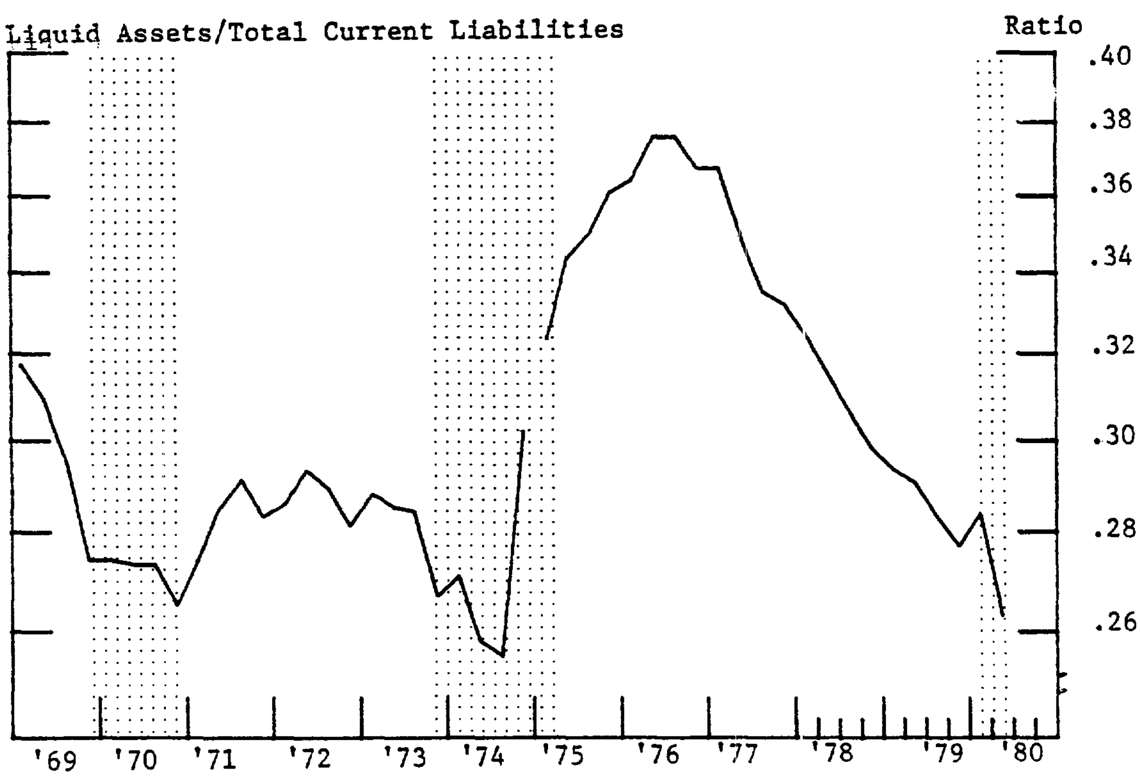
1. Includes a small amount of loans from U.S. Government.
2. Includes consumer credit, net trade credit, and miscellaneous assets less taxes payable and miscellaneous liabilities.

LIQUIDITY MEASURES OF NONFINANCIAL CORPORATIONS
(Quarterly, seasonally adjusted)

Short-term Market Debt/Long-term Market Debt



Liquid Assets/Total Current Liabilities



Note: Shaded areas denote recessions as defined by NBER.

Latest data shown are 1980-Q2 (preliminary).

spring of 1977, even as the financing gap remained sizable owing to weakened profits and increased inventory accumulation. (See table on page III-11.) Businesses met a substantial part of their cash needs by drawing down a large fraction of the liquid assets acquired in the first quarter in anticipation of credit controls. This drawdown produced a marked reduction in the ratio of liquid assets to total current liabilities.

Broad stock price indexes have climbed between 1 and 5 percent since the last FOMC meeting, and have risen 20 to 45 percent since early spring to approach or exceed previous record levels. Although price-earnings multiples remain, on average, relatively low by historical standards, the recent improvement has encouraged a substantial number of firms to sell new shares. July stock issuance roughly matched the strong first-half pace.

Government Debt Markets

The Federal government must finance a large deficit in the current quarter. The Treasury borrowed $11-1/4 billion in July through the issuance of marketable debt. Of this amount, nearly three-fourths was raised in regular weekly and monthly bill auctions, and the rest was obtained in the regular two-year note and 15-year bond offerings. It appears likely that during the third quarter as a whole as much as two-thirds of the Treasury's marketable borrowing--now expected to be in the range of $24 to $27 billion--will be raised in regular auctions of bills, an exceptionally high proportion. This would bring total borrowing through bills during the 1980 fiscal year to about $38 billion, half of the record total marketable borrowing for the year. The runoff in

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

	Q1	Q2	June	July[e/]	Aug.[f/]
	------------ Seasonally adjusted ------------				
State and local government securities, gross offerings					
Total	4.85	6.71	6.52	7.85	6.65
Long-term	2.73	4.76	4.72	5.00	3.80
Short-Term	2.12	1.95	1.80	2.85	2.85
U.S. government securities, net offerings					
U.S. Treasury[1]	9.55	4.87	0.06	12.75	5.85
Sponsored agencies	3.06	1.60	-0.19	1.25	0.18
	--------- Not seasonally adjusted -----------				
State and local government securities, gross offerings					
Total	4.30	8.02	7.90	7.00	6.50
Long-term	2.55	5.20	5.80	4.60	4.00
Housing revenue bonds	0.85	1.38	1.63	1.00	1.00
Single-family	0.75	1.33	1.55	0.70	0.80
Multi-family	0.10	0.05	0.08	0.30	0.20
Short-term	1.75	2.82	2.10	2.40	2.50
U.S. government securities, net offerings					
U.S. Treasury[1]	10.82	0.98	-3.39	11.16	9.30
Bills	7.91	-4.18	-10.13	8.46	5.60
Coupons	2.91	5.16	6.74	2.70	3.70
Sponsored agencies	2.57	1.78	0.28	1.58	0.61

e--estimate. f--forecast.
1. Marketable issues only.

nonmarketable Treasury debt has slowed considerably in recent months, mainly owing to a diminution in redemptions of savings bonds and a reversal of the redemption of special issues to foreign official institutions.

Federally sponsored credit agencies are estimated to have borrowed about $1-1/4 billion, seasonally adjusted, in July. This compares with no net borrowing in June and a monthly average of $1-1/2 billion in the second quarter. Primarily to fund the agricultural mortgage financing activities of the Federal Land Banks, the Federal Farm Credit Banks raised $1 billion. FNMA raised slightly more than $1 billion in July even though it purchased only a small amount of mortgages. FNMA's July borrowing, all in debentures, likely will replace a runoff in discount notes in August as it seeks to lengthen the maturity of its debt. The FHLB System ran off about $900 million of its debt during July, coincident with a decline in advances of about $1 billion.

Gross offerings of tax-exempt bonds during July totaled about $5 billion (seasonally adjusted), a shade above the June level. Issuance of housing revenue bonds fell off last month; the proportion of these bonds used to finance single-family housing declined to about 70 percent in July, compared with 95 percent in the first six months of the year. Meanwhile, sales of bonds to finance construction and improvement projects for public utilities picked up; the proportion of large bond issues for such purposes rose to about 30 percent in July, reversing the downward trend in this ratio during the second quarter.[1] The

1. The relative importance of bond issuance by purpose reported above reflects data on issues of $25 million or larger, which in June and July accounted for about 70 percent of bonds issued.

volume of short-term tax-exempt securities offered during July totaled almost $3 billion (seasonally adjusted), including a record issuance of HUD project notes amounting to almost $2 billion.[1]

Since the last FOMC meeting, yields on tax-exempt bonds have risen more than those on taxable securities. As a result, the ratio of tax-exempt to taxable yields increased during July, setting a new two-year high for the second consecutive month. The upward movement in this ratio is due in part to the reduced demand for municipal bonds by property/casualty insurance companies which reportedly are facing increased underwriting losses.

Mortgage Markets

Signs of a recovery in mortgage lending activity have been evident recently at S&Ls as well as at commercial banks. Although S&L mortgage holdings declined in June, these institutions increased their outstanding loan commitments--both to originate and to purchase mortgages--for the first time since late last summer. The pickup in S&L mortgage commitments was fairly widespread by geographic region. Moreover, the fall during July in the proportion of FHLMC-sampled S&Ls reporting the supply of mortgage funds below normal seasonal patterns--to about 70 percent recently from 74 percent in June and a high of 93 percent in mid-March--increases the likelihood of future growth in commitment volume.

1. An increased demand for shorter-maturity tax-exempt paper by money market mutual funds has given new impetus to the development and use of tax-exempt commercial paper. Such paper is also referred to as "short-term interim certificates of indebtedness" and is part of the short-term category of state and local government securities in the table. Although such issues total less than $100 million, dealers believe that $1 billion may be outstanding by year-end.

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

Period	Conventional home mortgages: Average rate on new commitments for 80% loans (percent)	Conventional home mortgages: Basis point change from month or week earlier	Spread[1] (basis points)	Percent of S&Ls[2] with mortgage funds in short supply
1980--High	16.35	--	+385	93
Low	12.18	--	-24	69
1980--Jan.	12.88	-2	+118	85
Feb.	13.03	+15	-22	84
Mar.	15.28	+225	+139	89
Apr.	16.33	+105	+369	86
May	14.26	-207	+258	85
June	12.71	-155	+171	74
July 3	12.18	-17	+100	72
11	12.23	+5	+97	69
18	12.18	-5	+85	69
25	12.18	0	+74	69
Aug. 1	12.25	+7	+30	70

1. Average mortgage rate minus average yield on recently offered Aaa utility bonds.
2. Percent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions): Offered	Conventional: Amount ($ millions): Accepted	Conventional: Yield to FNMA[1]	Government-underwritten: Amount ($ millions): Offered	Government-underwritten: Amount ($ millions): Accepted	Government-underwritten: Yield to FNMA[1]	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery[2]
1980--High	426	133	17.51	644	355	15.93	13.84
Low	54	24	12.76	199	89	12.28	11.03
1980--June 9	110	43	13.05	333	146	12.42	10.89
16							10.79
23	60	33	12.81	269	120	12.28	10.73
30							11.42
July 7	107	58	12.76	629	256	12.53	11.42
14							11.61
21	121	83	12.84	427	174	12.78	11.66
28							11.71
Aug. 4	205	107	13.31	643	355	13.58	12.34

1. Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.
2. Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA-VA mortgages typically carrying the prevailing ceiling rate on such loans.

The second quarter increase in total mortgage debt outstanding was only slightly more than half that in the first quarter and was the smallest quarterly increase since 1975. (See table on page III-19.) The home mortgage component contracted most sharply. Net mortgage lending by nonbank thrift institutions turned slightly negative, and lending at commercial banks fell to about one-fifth of the first quarter pace. Net mortgage acquisitions by life insurance companies--concentrated in the nonresidential component--declined only moderately, as did activity in the residential sector by federally related agencies and mortgage pools. Acquisitions of residential mortgages by state and local governments are estimated to have increased somewhat, based upon the heavy issuance of housing revenue bonds during the quarter.

The average interest rate on new conventional mortgage commitments at sampled S&Ls has fluctuated narrowly in recent weeks, edging up to 12.25 percent on August 1. Market reports suggest that some institutions have raised their lending rates further in the past few days, responding in part to the backup of secondary market yields that commenced during the latter part of June as yields on long-term securities began to rise. Immediate-delivery yields on GNMA-guaranteed mortgage-backed securities issued against pools of FHA/VA home loans have increased about 90 basis points, while average yields in FHLMC's auction of immediate-delivery commitments to purchase conventional home loans have climbed 65 basis points.

Consumer Credit

Consumer installment credit outstanding contracted substantially in June, according to advance estimates, after a postwar-record decline

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates, in billions of dollars)

	1979			1980	
	Q2	Q3	Q4	Q1	Q2[e]
Total	165	161	150	144	74
By type of debt					
Residential	118	115	114	104	46
Homes	111	106	104	95	40
Multifamily	7	9	10	9	6
Nonresidential	47	46	36	40	28
Commercial	29	30	22	26	15
Farm	18	16	14	14	13
By type of holder					
Commercial banks	30	34	32	27	6
Savings and loans	51	44	34	25	-1
Mutual savings banks	4	4	2	2	*
Life insurance companies	11	14	15	16	13
FNMA and GNMA	7	3	10	12	9
GNMA pools	19	24	27	18	17
FHLMC and FHLMC pools	4	5	3	3	3
Other[1]	38	33	27	41	27

1. Includes state and local credit agencies, Farmers Home Administration and Farmers Home Pools, Federal Land Banks, mortgage companies, real estate investment trusts, noninsured pension funds, credit unions, individuals, and several other minor holders.
e--Partially estimated.
*--Less than $.05 billion.

CONSUMER INSTALLMENT CREDIT[1]

	1978	1979	1980 Q1	1980 Mar.	1980 Apr.	1980 May
Total						
Change in outstandings						
Billions of dollars	44.8	35.5	20.4	17.2	-23.8	-41.2
Percent	19.4	12.9	6.6	5.6	-7.6	-13.3
Bank share (percent)	53.1	37.8	24.2	1.2	*	*
Extensions						
Billions of dollars	298.4	322.6	321.6	319.4	270.6	254.9
Bank share (percent)	47.8	46.4	44.1	42.5	41.4	41.5
Liquidations						
Billions of dollars	253.5	287.1	301.2	302.2	294.4	296.1
Ratio to disposable income (percent)	17.4	17.7	17.3	17.3	16.8	16.9
Automobile credit						
Change in outstandings						
Billions of dollars	19.6	12.6	9.0	4.7	-7.7	-16.1
Percent	23.6	12.3	7.8	4.1	-6.6	-13.8
Extensions						
Billions of dollars	89.0	91.9	90.7	86.9	68.7	62.3
Revolving credit						
Change in outstandings						
Billions of dollars	7.8	8.3	5.9	7.3	-4.7	-5.8
Percent	19.8	17.6	11.0	13.8	-8.7	-11.0
Extensions						
Billions of dollars	104.6	120.8	128.0	132.5	123.5	121.1

1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.
* Banks accounted for more than 100 percent of the drop in outstandings in April, and about three-quarters of the decline in May.

of 13-1/4 percent in May. Despite the phasing out of the special restraints on consumer credit that was announced by the Board on July 3, industry sources indicate that consumer demand for credit appears to have continued weak. Moreover, on the supply side, several large retail store chains have reported that they would maintain the stricter credit policies put into effect earlier. Credit card user fees and revised payment schedules announced by several commercial banks during the past six months apparently remain in place or will be implemented as scheduled. In late July, however, three major New York banks announced that they would ease some of the restraints on consumer lending that they had adopted when the Board's program was instituted.

Personal bankruptcy cases--spurred this year in part by the liberalization of the federal bankruptcy law that took effect last October--averaged more than 23,000 per month in April and May, up from the advanced rate of 20,000 per month during the first quarter. Although most consumer loan delinquency series are not yet available for the second quarter, the special System survey on consumer credit in mid-June suggested a broad rise in delinquencies. In any event, reflecting the recent contraction in consumer credit outstanding, the ratio of installment debt repayments to disposable income backed down further in the second quarter from its peak last summer.

RESTRICTED

August 6, 1980

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

		1978 Year	1979 Year	1979 Q2	1979 Q3	1979 Q4	1980 Q1	1980 Mar.	1980 Apr.	1980 May
1.	Trade balance 1/	-33,759	-29,469	-8,070	-7,060	-9,225	-10,875	-3,453	-1,264	-3,985
2.	Merchandise exports	142,054	182,055	42,815	47,198	50,237	54,708	18,837	18,463	18,057
3.	Merchandise imports	-175,813	-211,524	-50,885	-54,258	59,462	-65,583	-22,290	-19,727	-22,042
4.	Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-15,219	15,104	4,909	745	-5,334	8,454	-5,602	-6,346	-6,644
	Through interbank transactions with									
5.	a) Own offices in foreign countries	4,775	21,305	6,754	8,303	-9,110	6,474	-4,230	-4,246	-4,653
6.	b) Unaffiliated banking offices in foreign countries	-4,607	3,694	-1,169	-2,344	6,373	2,759	-163	-1,212	-1,150
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase,-)	-16,463	-12,182	-2,036	-5,309	-3,830	-207	-772	-358	-514
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,076	2,287	1,360	95	1,234	-572	-437	-530	-327
9.	Private securities transactions, net (excl. U.S. Treas. Oblig.)	-783	-3,350	27	-1,951	-907	1,611	321	260	-455
10.	Foreign net purchases of U.S. corp. bonds	1,056	268	265	6	20	406	63	164	-20
11.	Foreign net purchases of U.S. corp. stocks	1,686	1,031	275	143	190	1,992	243	148	56
12.	U.S. net purchases (-) of foreign securities	-3,525	-4,649	-513	-2,100	-1,117	-787	15	-52	-491
13.	Foreign net purchases of U.S. Treasury obligations 2/	2,271	3,712	-119	1,466	-198	3,278	380	-751	-1,450
14.	Change in foreign official reserve assets in U.S. (increase +)	31,400	-13,013	-10,211	5,580	1,862	-7,463	-2,968	-1,572	2,725
	By Area									
15.	G-10 countries and Switzerland	30,732	-21,087	-11,628	4,819	-7,182	-10,761	-6,978	-3,423	1,724
16.	OPEC	-1,175	6,523	338	1,624	6,031	3,266	2,834	667	450
17.	All other countries	1,843	1,551	1,079	-863	852	32	1,176	1,184	551
	By Type									
18.	U.S. Treasury securities	23,322	-17,974	-13,079	6,180	-3,609	-4,755	-5,540	-2,335	2,609
19.	Other 3/	7,551	7,546	2,642	550	5,470	-2,221	-1,438	763	116
20.	Change in U.S. reserve assets (increase -)	662	-278	412	2,712	-394	-2,520 4/	-608	-73	-273
21.	All other transactions and statistical discrepancy	15,428	27,294	13,052	-1,492	14,196	7,515	11,930	8,995	10,082
MEMO:	Current Account (bil. $ seasonally adj. annual rates)	-14.3	-.8	-6.0	4.4	-7.2	-10.3	n.a.	n.a.	n.a.

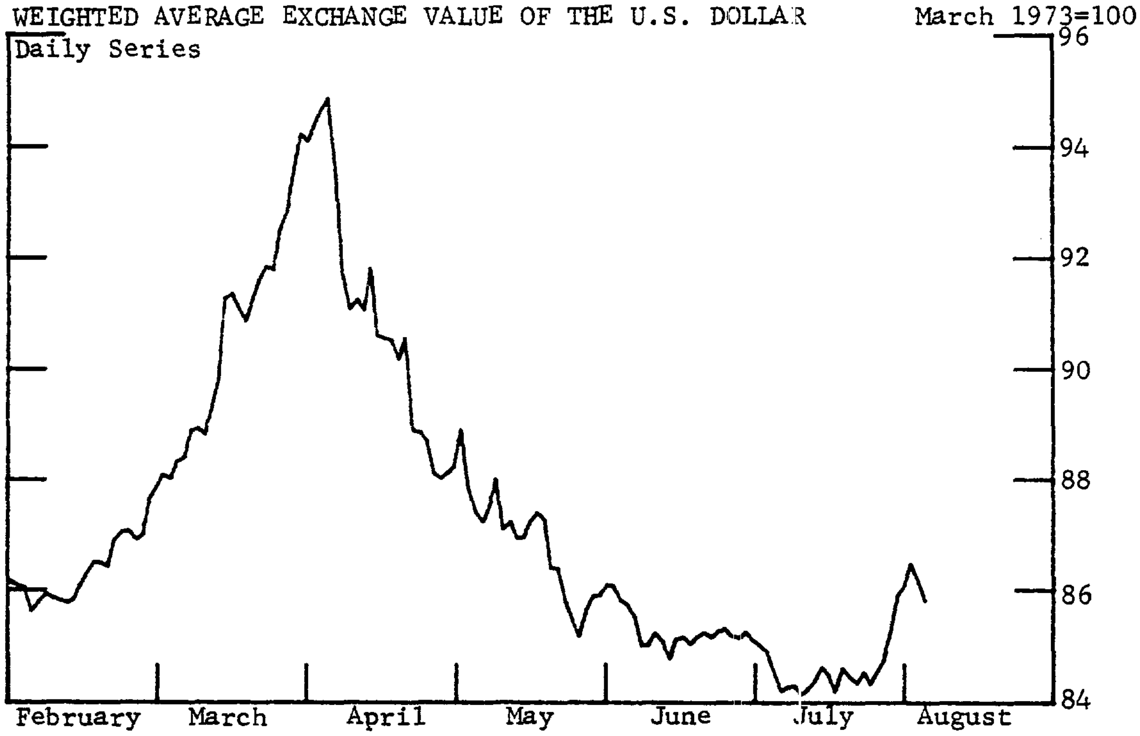
1/ International accounts basis, seasonally adjusted.
2/ Includes U.S. Treasury notes publicly issued to private foreign residents.
3/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchases agreements.
4/ Includes newly allocated SDR's of $1,150 million in January 1980.

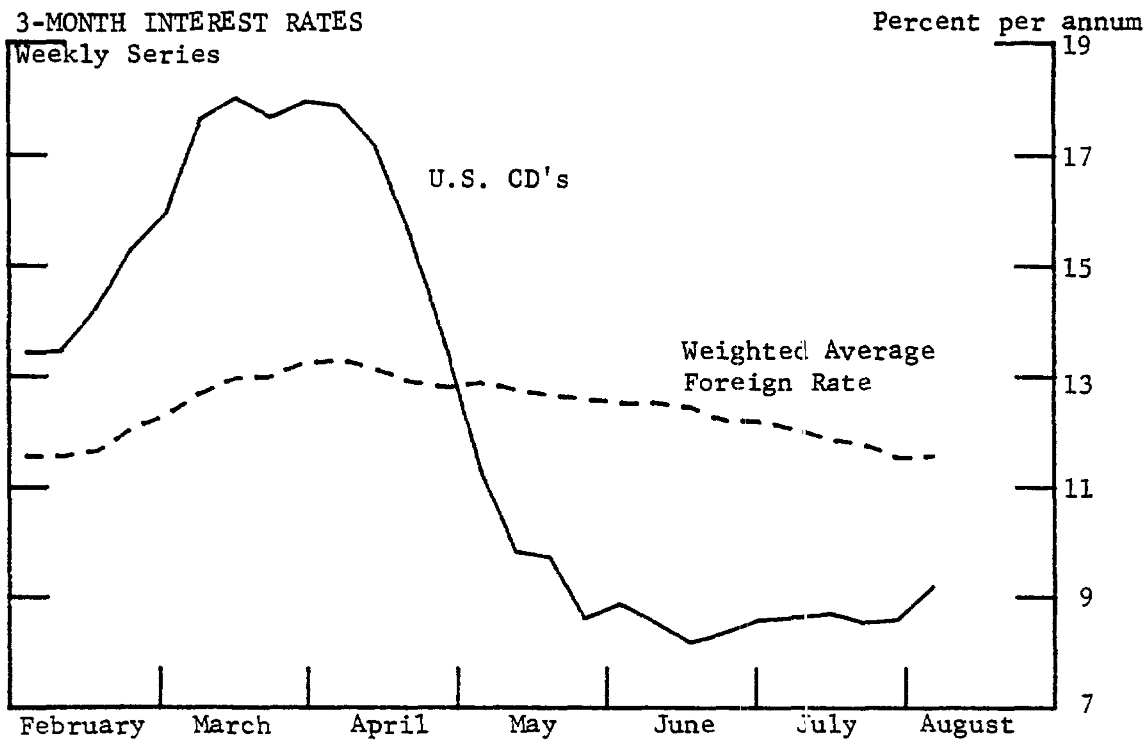
IV-T-1

Foreign exchange markets

The weighted-average foreign exchange value of the dollar increased by about 2/3 percent over the 5 week period since the last green book. As shown in the top panel of the chart, during most of July the dollar fluctuated in a narrow range and showed little net change. However, in the last week of July the dollar came under strong upward pressure and rose by over 2 percent. Nearly half of this rise was subsequently reversed in the first week of August. The dollar's average exchange value is currently about unchanged from its level at the beginning of the year and is nearly 10 percent below its peak level of early April.

Exchange market developments have continued to be dominated by relative interest rate movements and expectations over the future course of U.S. and foreign monetary policies. As can be seen by comparing the upper and lower panels of the chart, the dollar's substantial depreciation in the second quarter coincided with a sharp drop in U.S. short-term interest rates. While interest rates abroad also moved lower over this period, the decline in foreign rates was much smaller than in the United States, and exchange market expectations of a further widening of interest rate differentials against the dollar were prevalent. By late July, however, a change in interest rate expectations became apparent, triggering a rise in dollar exchange rates. There was increasing speculation in the last week of July that U.S. interest rates had reached their low point and could move higher, in contrast to foreign interest rates which were seen as


WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR
March 1973=100
Daily Series
96
94
92
90
88
86
84
February
March
April
May
June
July
August


3-MONTH INTEREST RATES
Percent per annum
Weekly Series
U.S. CD's
Weighted Average Foreign Rate
19
17
15
13
11
9
7
February
March
April
May
June
July
August

continuing to decline. In the first week of August expectations shifted again against the dollar due to an easing in the Federal funds rate.

Over the 5 week period since the last green book, the dollar appreciated most against the Japanese yen, rising nearly 3 percent. The yen's relative weakness was due in large part to expectations of lower Japanese interest rates and a reduction in the Bank of Japan's discount rate. The only major foreign currency to show a net increase in value relative to the dollar since the last green book was the Italian lira. The lira's strength reflected mainly the subsiding of speculation that the lira would be devalued within the EMS.

Net U.S. intervention over the past five weeks was about zero, with sales of marks, Swiss francs, and French francs in the New York market at times of selling pressure on the dollar nearly balanced by market purchases when the dollar strengthened late in the period and non-market foreign currency acquisitions throughout the period. On a net basis, the Desk acquired $74 million equivalent of marks and $123 million equivalent of Swiss francs. The marks were used mainly to repay System swap debt to the Bundesbank, reducing outstanding drawings to $833 million equivalent. The Swiss francs were added to System and Treasury balances. Sales of $61 million equivalent of French francs were financed by a System swap drawing on the Bank of France, raising outstanding French franc drawings to $166 million equivalent.

Borrowing in international capital markets. Gross borrowing in international capital markets, which was at severely depressed levels in the first quarter of 1980, picked up sharply in the second quarter when dollar interest receded from earlier peaks. For the first half of this year, total gross borrowing trailed the comparable year-earlier level by only 10 per cent. However, the year-to-year changes in borrowing volume show great differences as between country groups--in particular, borrowings by industrial countries were higher in the first half of 1980 than a year earlier whereas those by non-oil developing countries were 40 per cent lower. The average level of lending spreads on Eurocurrency credits has shown little change so far this year, but some non-oil developing countries have begun to pay substantially higher spreads, and maturities generally have shortened.

Total gross borrowing, which had averaged $31 billion per quarter in 1979, fell to $19 billion in the first quarter of 1980, as medium-term Eurocredits and international bond issues (Eurobonds and foreign bonds) felt the impact of record high levels of short- and long-term dollar interest rates. The effects of the much higher levels of LIBOR on the demand for loans were reinforced by the restrictions placed on Japanese banks' international lending in October 1979 and by a more cautious attitude by bankers following the events in Iran and Afghanistan and the further steep oil price increases late last year. Subsequently, in the second quarter of this year, total borrowing rebounded to $34 billion, appreciably above the 1979 quarterly average, as interest rates came down; both Eurocredits and bond issues advanced sharply. Restrictions on Japanese banks were liberalized beginning

GROSS BORROWING IN INTERNATIONAL CAPITAL MARKETS
(Billions of dollars)

	1978	1979		1980		
	year	year	1st H	1st H	Q-1	Q-2
I. Total Borrowing, by Type	104.5	123.8	58.8	53.1	19.0	34.1
Medium-term Eurocredits1/	70.2	82.8	36.9	31.9	11.1	20.8
Eurobonds	14.1	18.7	10.7	12.3	3.1	9.2
Foreign bonds	20.2	22.3	11.2	8.9	4.8	4.1
II. By Country Group						
Industrial countries	53.9	59.1	28.5	32.0	11.4	20.6
Eurocredits	29.0	27.2	10.6	14.9	4.8	10.1
Bonds	25.0	31.9	17.9	17.1	6.6	10.5
OPEC countries	12.0	13.0	5.9	6.8	2.6	4.2
Eurocredits	10.4	12.6	5.6	6.6	2.4	4.2
Bonds	1.5	.4	.3	.2	.2	0
Non-oil developing co.'s	29.6	38.1	17.2	10.1	3.4	6.7
Eurocredits	26.9	35.4	15.4	9.0	3.2	5.8
Bonds	4.2	3.1	1.8	1.1	.2	.9
Communist countries	3.8	7.4	5.2	1.1	.5	.6
Eurocredits	3.8	7.3	5.2	1.0	.5	.5
Bonds	0	.1	0	.1	0	.1
International org.'s	5.2	6.2	2.3	3.4	1.2	2.2
Eurocredits	.2	.3	.1	.4	.3	.1
Bonds	5.1	5.9	2.2	3.0	.9	2.1
III. Non-Oil Developing Countries: Country Detail2/						
Argentina	1.5	3.0	1.6	1.1	.3	.8
Brazil	6.5	7.2	3.6	1.5	.3	1.2
Chile	1.0	.9	.2	.4	.1	.3
Mexico	7.8	8.6	4.5	2.4	.5	1.9
Peru	0	.6	.1	.3	.1	.2
Korea	2.7	3.3	1.6	1.1	.8	.3
Malaysia	.9	1.2	.1	0	0	0
Philippines	2.2	2.2	.9	.3	.3	0
Taiwan	.3	1.1	.3	.1	0	.1
Morocco	.6	.5	.2	.3	0	.3
Others	5.1	8.4	3.1	2.1	.9	1.2

1/ Based on announcements.
2/ Excludes bond issues except those by Brazil, Mexico, and Philippines (55% of all bond issues by non-oil LDCs in 1979).

Source: Morgan Guaranty Trust Co.

in April, although the new official "guidance" is expected to keep Japanese banks' external foreign-currency lending in 1980 to one-half (or somewhat less) of the 1979 level. Although total gross borrowings in the first half of this year were 10 per cent below the year-earlier level, the amount raised net of advance refinancings of Eurocredits appears to have declined by somewhat less--7 1/2 per cent--as advance refinancings dropped to an estimated $3.7 billion from $5.5 billion previously.

Borrowing by industrial countries in the first half of 1980 increased 12 per cent from the year-earlier level. Most of the rise was in Eurocredits and reflected increased borrowing demands by those countries as well as the "flight to quality" by lending banks which have upgraded the relative creditworthiness of the industrial countries group as compared with the developing countries and Eastern Europe. Most countries in the industrial group have borrowed more this year, including smaller countries such as Denmark, Finland, Greece, Spain and Sweden. Despite larger external surpluses, the OPEC countries as a group have increased their borrowing moderately, but the increase almost entirely reflects larger credits to one country, Venezuela, which has been raising new money as well as refinancing maturing credits.

Although lending to non-oil developing countries picked up in the second quarter, the second quarter total was still well below the quarterly average in 1978-79. The 40 per cent year-over-year decline in lending to this group in the first half of 1980, despite larger current account deficits in almost all cases except for Mexico, partly reflects less willingness by lenders to continue increasing their exposure to some non-oil developing countries this year in view of worsening current account prospects. At the same time, borrowing countries have tended to resist the demands of lenders for higher spreads. In addition, some borrowers with high reserves, including Brazil, postponed borrowing when LIBOR rates were very high, and such delays may not have been entirely made up by the end of June. Other factors contributing to reduced Eurocredit lending to major LDC borrowers included the effects of political developments on the outlook for Korea and switching by Philippine borrowers to short-term credits which do not appear in standard data on international capital markets. A large drop in Mexican borrowings this year appears to have resulted largely from a reduced current account deficit as the volume and price of Mexican oil exports have risen.

Another group to show greatly reduced borrowing this year is the Communist countries. Most of the decrease reflects non-repetition of heavy ($3.4 billion) Eurocredit borrowing announced for China in 1979. In addition, worsened prospects for Poland's debt-servicing capacity, together with the Afghanistan situation, have contributed to reduced lending to most Eastern European countries.

Spreads over LIBOR on Eurocurrency credits in the first six months of 1980 show, on average, very little change from the second half of 1979, according to Federal Reserve sample data. However, spreads on credits to some non-oil developing countries, notably Brazil and Korea, have risen this year; on loans to Brazil, weighted average spreads moved up from .8 per cent in the second half of 1979 to almost 1 per cent in the second quarter of 1980, and a large loan in July to the

Brazilian Electricity Board carried a 1-3/8 per cent spread. The drop in the maturities of Eurocredits this year has been marked. On an unweighted basis, the average maturity in the Federal Reserve sample decreased from approximately nine years in the second half of 1979 to about 8-1/3 and 7-1/2 years, respectively, in the first and second quarters of 1980.

U.S. International Transactions

The U.S. merchandise trade deficit in the second quarter was $31 billion at an annual rate (international accounts basis), about one-third smaller than in the first quarter. While exports were about unchanged, imports declined by 5 per cent.

U.S. Merchandise Trade1/
(in billions of dollars, seasonally adjusted annual rates)

	1979			1980			
	Year	3Q	4Q	1Q	2Q	May*	June*
EXPORTS	182.1	188.8	200.9	218.8	218.7	216.7	218.0
Agric.	35.4	37.5	41.7	41.5	38.8	38.4	38.1
Nonagric.	146.6	151.3	159.2	177.3	180.0	178.3	179.9
IMPORTS	211.5	217.0	237.8	262.3	249.8	264.5	248.2
Oil	60.0	64.4	75.4	86.4	84.0	93.5	86.3
Nonoil	151.5	152.7	162.4	175.9	165.8	171.0	162.0
BALANCE	-29.5	-28.2	-36.9	-43.5	-31.1	-47.8	-30.2

1/ International Accounts Basis.
*/ The monthly international accounts basis figures are only rough estimates and are subject to considerable revision.
NOTE: Details may not add to totals because of rounding.

The value of oil imports in the second quarter declined by 3 percent from the preceding-quarter rate. A 12 percent decrease in the volume was nearly offset by a 10 percent price rise from the first-quarter average. The June import price data do not yet reflect the OPEC price hikes (about 8 percent) of mid-May and June. The rapid stockbuilding of oil that occurred last year and early this year has tapered off and this has contributed to the reduction in oil import demand; on a seasonally-adjusted basis, stocks were at about the same level at the end of June as they were at the end of March.

Oil Imports*
(seasonally adjusted)

	Volume (Mil. barrels/day)	Price ($/BBL)	Value (Bil. $ AR)
1980 - 1	8.42	28.06	86.4
2	7.44	30.86	84.0
March	8.06	29.73	88.4
April	6.43	30.59	72.3
May	8.23	30.94	93.5
June	7.57	31.01	86.3

*/ International accounts basis (includes imports into the U.S. Virgin Islands.)

Nonoil imports in the second quarter decreased by about 6 percent from the previous quarter, with a 2 percent increase in prices partly offsetting an 8 percent decline in volume. About half of the decline in value was concentrated in precious metals (gold and silver) and in automotive imports from Canada (reflecting weak U.S. new car sales). The remaining decline in value was accounted for by small changes in most other major commodity categories. Automotive imports from Japan and Europe were about unchanged in value from the first quarter rate. The value of steel imports increased somewhat.

The value of nonagricultural exports increased by 1-1/2 percent entirely reflecting price rises. While there were widespread increases in the value of machinery and industrial supplies (excluding silver) exports, these rises were largely offset by declines in silver and automotive exports of Canada. Civilian aircraft exports were at about the same strong rate as in the first quarter.

The decrease in agricultural exports in the second quarter was about evenly split between falling prices and volume declines. Most of the decrease was in wheat, corn, and soybeans. Current crop conditions here and abroad suggest that the decline in value is only temporary.

In international financial transactions, an outflow of funds through banks that has been underway since spring continued through late July. As shown in the accompanying table, banking offices in the United States reduced their net Eurodollar borrowings by $18 billion, on a daily average basis, between March and June, and partial data for July indicate further reductions.[1/] More than four-fifths of the net outflow was accounted for by member banks. This shift toward financing of the foreign branches of member banks occurred with little change in the volume of deposits of U.S. nonbank customers at the foreign branches of member banks.

Partial data for the second quarter indicate the growth in U.S. resident deposits at foreign banking offices slowed and perhaps became negative. This slowdown may reflect the response of investors to the reduced yield differential on Eurodollar deposits as compared with domestic money-market investments, such as domestic CDs, that has accompanied a general lowering of interest rates. For example, money market mutual funds (MMMFs) increased their holdings of Eurodollar CDs by about $600 million in the second quarter (4 percent of the increase in

1. These data differ from those in the "U.S. International Transactions" table in that they are daily average outstanding, rather than differences of month-end outstandings. It is estimated that the change from end-March to end-June in U.S. banking offices net borrowings from own foreign offices was -$16 billion.

Net Eurodollar Borrowing (+) by Commercial Banks in the United States
(billions of dollars, daily average)

	1979		1980						
	Q-3	Q-4	Q-1	Q-2	Mar.	Apr.	May	June	July p/
Total net Eurodollar borrowing	32.4	32.4	30.1	21.7	32.9	26.8	23.2	15.0	n.a.
- Domestic-chartered banks' net position with own foreign offices	8.1	9.0	7.3	1.2	9.3	6.0	2.7	-5.2	-7.2
- Foreign-related banks' net position with directly related institutions	24.3	23.4	22.8	20.5	23.6	20.9	20.5	20.1	n.a.

total assets over the period) compared with a nearly $2 billion increase (one eighth of the total increase) in the first quarter.[2/]

Most of the funds raised by banking offices in the United States in excess of bank-credit demands have been channeled to ultimate borrowers abroad. However, since the end of April there has been a pronounced surge of more than $2.5 billion in loans of the foreign branches of member banks to U.S. nonbank residents (see table), a partial offset to the reported recent weakness in domestic bank credit. About four fifths of this increase was accounted for by a few New York banks.

Outstanding Credit Extended to
U.S. Nonbank Residents by the Foreign Branches
of Member Banks
(billions of dollars, end of period)

1979		1980				
Sept.	Dec.	March	April	May	June	July[p/]
2.7	2.8	3.5	3.6	4.9	5.6	6.2

In conversations with System staff these New York banks indicated that these loans were made under commitments that give a borrower an option of borrowing either at the Eurodollar rate on a loan from a foreign branch or at the prime rate on a loan from a U.S. office. Thus, the surge in loans to U.S. residents from the foreign branches of these banks reflect the fact that in recent months Eurodollar loans have been considerably less expensive than prime rate loans.

2. The second-quarter increase in the Eurodollar CD holdings of MMFs was more than offset by a reduction in the holdings of short-term unit investment trusts (UITs). The attractiveness of this type of money-market investment vehicle has proved to be very sensitive to the level of interest rates -- no UIT has been created since late April. Because three fifths of UITs' total assets were invested in Eurodollar CDs, their net retirement -- more than $2 billion in the second quarter of 1980 -- is largely reflected in a reduction of U.S. residents' holdings of Eurodollar CDs.

Foreign official assets in the United States rose by $2.7 billion in May,

.

. OPEC holdings at the FRBNY have risen about $2 billion over these two months. This increase was mostly accounted for by an increase in one OPEC country's holdings of medium-term Treasury notes.

In international securities transactions, the heavy foreign purchases of U.S. corporate equities evident in the early months of the year faded in the second quarter, while U.S. purchases of foreign bonds appear to be reviving as borrowing costs in the United States declined.

Foreign Economic Developments. Inflation has shown signs of moderating in almost all major foreign countries. Using CPI data and comparing the second quarter of the year with the first quarter, inflation has declined in France, Germany, and Italy. Acceleration in quarterly rates appeared in Canada, Japan and the United Kingdom, although the acceleration for the latter two was primarily the result of high inflation in April. Looking at the past two months, CPI inflation has declined significantly in all of the major countries but Canada. In Japan, Germany, Italy and the United Kingdom wholesale inflation improved between the first two quarters of the year; April and May data indicate the same will almost surely be true for Canada and France.

Second-quarter GNP data are not yet available for most countries. However, industrial production data suggest that some weakening has occurred in the major foreign countries. In all six countries average industrial production in the latest two months has declined, and for all but Italy and France industrial production has declined for two consecutive months.

With the exception of the United Kingdom and Canada, the major foreign countries continue to record large current-account deficits in recent months.

Despite signs of weakening demand and slowing inflation, authorities abroad have been reluctant to ease their policies. The Italian government proposed a package of generally restrictive policies. However, market interest rates have declined, discount rates have been lowered in the Netherlands and Belgium, and the Bank of England has reduced its Minimum Lending Rate.

Individual Country Notes. In Japan, signs of a weakening of demand have emerged in recent weeks, including a flattening of consumption and slower growth of exports, which in the latter case had been the principal source of strength so far this year. Also, public works contracts, as a share of authorized outlays, have been awarded so far in FY 1980 at a rate that is the slowest since 1974. Industrial production fell sharply in June for the second straight month; its average level in the second quarter was only one percent (a.r.) above its first-quarter level and far below the 8-10 percent advances recorded in most of 1979 and early 1980.

Inflationary pressures in Japan appear to have moderated significantly in recent months. In June, wholesale prices declined for the second month in a row, due mainly to appreciation of the yen and lower dollar prices for some imported commodities. Very small increases in the CPI in June and July (0.1 and 0.2 percent, respectively) suggest that upward pressure on consumer prices has begun to ease as well.

The current-account deficit (s.a.) widened by almost $400 million in June, due largely to an almost $800 million increase in imports. Despite very strong growth of exports -- particularly motor vehicles and electronic equipment -- during the first half of the year, the first-half current-account deficit reached almost $10 billion.

The government's monetary stance remains tight; latest figures show M_2 (in May) to have been less than 10 percent above its year-ago level (compared with an over 12 percent rate of advance for the same month of the previous year. The discount rate also remains at 9 percent, despite growing concern about slower activity. Recent economic

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from preceding period)

	1979				1980		1980					MEMO: Latest 3 Months from Year Ago
	Q1	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May	June	July	
Canada: CPI	2.3	2.6	2.0	2.3	2.2	2.8	1.1	0.6	1.2	1.1	n.a.	9.6
WPI	4.9	3.1	2.7	3.6	4.9	n.a.	-0.5	0.8	0.8	n.a.	n.a.	13.3
France: CPI	2.2	2.8	3.2	2.8	3.8	3.1	1.2	1.1	0.9	0.6	n.a.	13.7
WPI	4.4	3.8	2.8	1.9	3.0	n.a.	0.1	0.2	-0.4.	n.a.	n.a.	9.3
Germany: CPI	1.8	1.4	1.2	0.9	1.9	1.8	0.6	0.5	0.5	0.5	0.1	5.8
WPI	3.4	3.3	1.7	1.1	3.9	1.7	0.5	0.3	0.8	0.2	n.a.	8.6
Italy: CPI	3.9	3.7	3.5	5.6	6.4	3.7	0.9	1.6	0.9	0.9	n.a.	20.6
WPI	4.4	4.6	4.3	5.6	6.6	3.6	1.1	1.3	0.8	1.1	n.a.	21.5
Japan: CPI	-0.2	2.2	0.9	1.9	2.0	3.0	0.7	1.8	0.7	0.1	0.2	7.7
WPI	1.9	4.1	4.9	4.3	6.4	4.8	2.0	2.7	-0.2	-0.1	n.a.	22.0
United Kingdom: CPI	3.1	3.7	6.7	2.8	4.7	5.8	1.4	3.4	0.9	0.9	n.a.	21.5
WPI	2.7	4.0	5.0	3.0	5.3	3.9	1.5	1.3	1.1	1.0	n.a.	18.4
United States: CPI	2.5	3.4	3.3	2.9	3.9	3.6	1.4	1.1	1.0	1.1	n.a.	14.4
WPI	3.3	2.5	2.6	3.7	4.1	2.5	1.1	0.8	0.4	0.7	n.a.	13.5

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted)

	1977	1978	1979	1979 Q1	Q2	Q3	Q4	1980 Q1	Q2	1980 Feb.	Mar.	Apr.	May	June
Canada: GNP	2.4	3.4	2.6	0.8	-0.2	1.1	0.5	-0.5	n.a.	*	*	*	*	*
IP	4.0	5.3	2.1	-1.7	-0.1	1.8	-0.5	-0.6.	n.a.	0.1	1.7	-1.7.	-1.8.	n.a.
France: GDP	3.0	3.5	4.0	0.3	0.4	2.7	0.4	0.4.	n.a.	*	*	*	*	*
IP	2.0	1.9	4.3	-0.3	2.0	3.8	-2.7	1.0.	n.a.	0.7	0.0	0.0	-2.1.	n.a.
Germany: GNP	2.6	3.5	4.4	0.6	2.1	0.9	0.6	1.8	n.a.	*	*	*	*	*
IP	2.6	2.3	5.4	0.0	3.1	1.6	0.5	1.3	-2.6	0.8	0.8	-1.6	-2.4	-0.8
Italy: GDP	1.9	2.6	5.0	1.2	-0.6	1.2	3.9	1.5	n.a.	*	*	*	*	*
IP	1.1	1.9	6.4	1.1	-2.6	1.4	8.5	3.2	n.a.	4.3	-0.4	1.4	-8.2.	n.a.
Japan: GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.1	1.8.	n.a.	*	*	*	*	*
IP	4.2	6.2	8.3	2.0	2.2	2.0	2.6	4.1	0.3	5.4	-3.3	1.8	-1.2	-0.7
United Kingdom: GDP	1.8	2.8	1.7	-0.6	3.1	-2.1	0.5	-0.7	n.a.	*	*	*	*	*
IP	3.7	3.6	2.7	0.4	4.0	-1.9	-0.1	-2.1	n.a.	-1.2	-1.2	-1.7	-0.1.	n.a.
United States: GNP	5.3	4.4	2.3	0.3	-0.6	0.8	0.5	0.3	-2.3	*	*	*	*	*
IP	5.9	5.8	4.1	1.0	-0.2	0.2	-0.1	0.0	-4.9	-0.2	-0.4	-2.2	-2.4	-2.4

* GNP data are not published on monthly basis.

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES[a]
(Billions of U.S. dollars; seasonally adjusted)

			1978	1979				1980		1980		
	1978	1979	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr.	May	June
Canada: Trade	3.1	3.4	0.7	0.6	0.6	0.9	1.3	1.5	1.2	0.0	0.5	0.8
Current Account	-4.6	-4.2	-1.5	-1.2	-1.3	-0.9	-0.8	-0.6	n.a.	*	*	*
France: Trade[b]	0.7	-2.4	0.1	0.4	-0.4	-1.4	-1.3	-3.5	-3.6	-0.5	-1.7	-1.4
Current Account[b]	3.7	1.2	1.3	0.5	0.7	0.1	-0.3	-2.5	n.a.	*	*	*
Germany: Trade	20.6	12.1	5.8	4.4	4.0	2.4	1.4	1.9	1.6	1.8	0.6.	0.3
Current Account[c]	8.9	-5.8	4.8	1.6	-1.6	-4.7	-1.0	-3.2	-3.0	-1.0	-0.8.	-1.8
Italy: Trade	-0.5	-5.3	0.1	-0.1	-0.4	-1.5	-3.3	-4.1	-4.2	-1.2	-1.2.	-1.8
Current Account[c]	6.2	5.1	1.5	1.3	2.3	3.0	-1.5	n.a.	*	*	*	*
Japan: Trade	24.6	2.0	4.2	2.5	1.9	-1.0	-1.4	-1.9	-0.9	-0.7	0.1	-0.3
Current Account	16.5	-8.7	1.7	0.1	-0.7	-3.9	-4.2	-5.2	-4.1	-1.8	-1.0	-1.3
United Kingdom: Trade	-2.9	-6.9	-0.4	-3.2	-1.0	-1.1	-1.6	-1.6	-0.7	-0.6	0.0	0.0
Current Account	1.8	-4.8	1.1	-2.4	-0.7	-0.2	-1.5	-0.9	-0.3	-0.5	0.1.	0.1
United States: Trade	-33.8	-28.4	-6.8	-5.1	-8.1	-7.1	-9.2	-10.9	-7.8	-1.3	-4.0.	-2.5
Current Account	-14.3	-0.8	-0.8	1.4	-1.5	1.1	-1.8	-2.6.	n.a.	*	*	*

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

developments in Japan suggest that the new government under Prime Minister Suzuki -- after a major economic review later this month -- may shift its policy emphasis somewhat away from the predominant concern of the Ohira government over control of inflation and more toward arresting an incipient slowdown in real growth.

In Germany there have been more signs of slowing economic activity as well as slowing inflation since the last greenbook. Industrial production declined by 2.6 percent in the second quarter, falling each month. The volume of orders, after a very sharp drop in April, recovered slightly in May due to a rise in orders from abroad, but domestic orders in May remained at their low April level. The business climate index of a major economic research institute dropped sharply in May. The rate of unemployment (s.a.) in June remained at 3.7 percent.

Data suggest that consumer price inflation peaked early this year. The rate of consumer price inflation was 0.5 percent each month from April through June and dropped to 0.1 percent in July compared with a .75 monthly average in the first quarter. The producers price index remained constant and wholesale prices rose only slightly in June, while import prices actually fell in May.

The current-account deficit widened to $1.8 billion in June bringing the deficit for the first half of the year to $6.8 billion, compared with a deficit of $5.8 billion for all of last year. Most of the increase in the June deficit was due to seasonal tourist expenditures.

Inspite of mounting pressure from labor and the government, the Bundesbank has been reluctant to ease monetary policy in the face of the slowdown taking shape. A limited amount (5.2 billion DM) of additional liquidity was offered the banks via open-market operations on July 28, but the Central Bank Council has so far resisted a cut in leading interest rates.

In the United Kingdom recent data indicate a continuation of the recession that began in the first quarter of this year. Industrial production in May and June averaged 3 percent (s.a.) below the first quarter level. The provisional estimate of real consumer expenditure in the second quarter showed a drop of 2.8 percent (s.a.) from the first quarter. The unemployment rate (excluding school leavers) rose in July to a post-war record of 6.6 percent (s.a.), considerably above the 5.7 percent figure in the first quarter of the year. In its most recent report on U.K. business sentiment, the Confederation of British Industry reported the most abrupt collapse in confidence in the outlook for the British economy since 1973-1974.

Weakening domestic demand and the strength of sterling contributed to a moderation in inflation rates during the most recent months. The retail price index rose slightly less than 1 percent in both May and June, considerably below the 1-3/4 percent average monthly inflation rate in the first quarter of the year. In May and June price increases for both manufactured goods and basic materials and fuels were also considerably below those recorded earlier in the year.

The decline in domestic demand was also partly responsible for the dramatic reduction in the U.K. current-account deficit from $1.3 billion in the first quarter to $0.3 billion in the second quarter. A decline in the surplus in the balance of invisibles was more than offset by a significant decline in the trade deficit, which reflected a sharply lower value of imports.

On July 3 the Bank of England reduced the Minimum Lending Rate by one percentage point to 16 percent. This move was justified by the Bank on the grounds that credit demand was easing and the rate of growth of sterling M_3 was within the 7-11 percent target ranges. In the four months from mid-February to mid-June, the growth rate of sterling M_3 was at the upper end of this range.

Canadian industrial production declined in both April and May, and the index of real domestic product fell in May, suggesting that the economic downturn whih began in the first quarter of 1980, with real GNP falling 2 percent (s.a.a.r.), continued in the second quarter. Unemployment in June remained unchanged from May's 7.8 percent.

Consumer price inflation increased from 9 percent (a.r.) in the first quarter to over 11.5 percent in the subsequent quarter. Although rather erratic the past several months, there seems to be a slight tendency toward acceleration. A recent Conference Board of Canada survey of consumer buying intentions reports that consumer confidence fell to an all time low in the second quarter due to increased concern about inflation and the depth and longevity of the current economic downturn.

The Canadian trade surplus was $774 million in June. The trade surplus for the first half of this year was nearly $2.8 billion compared with a surplus of $3.4 billion for all of 1979.

M_1 growth between the base period of 1979-Q2 and second quarter of the current year was 3.7 percent, which is below the target range of 5-9 percent.

Almost all indicators in France reveal spreading weakness and pessimism. French GDP growth in the first quarter fell to about 1.5 percent (s.a.a.r.) from 3.4 percent for 1979. In May industrial production decreased by 2 percent from the average of the previous four months, a period with some small fluctuation but no trend. Industrial production in May was as low as any other month since June 1979. Recent surveys by both the Bank of France and the Statistical Institute indicate that orders are down, stocks are considered excessive and pessimistic expectations prevail. The weakness originates in both the domestic and external markets. Investment does seem to be above recent performance, but may not be expected to remain so in the presence of slack demand.

The results of weak economic activity are beginning to reduce inflation rates. In the second quarter, the retail inflation rate fell to about 13 percent (a.r.) from 16 percent in the previous quarter; wholesale prices were stagnant in April and declined .4 percent in May.

In the first quarter the current-account deficit was $2.5 billion, and through the first half of the year the trade deficit was $7 billion. These results contrast sharply with a balanced trade account for the first half of 1979 and a $ 1/2 billion first quarter 1979 current-account surplus. Nonetheless the franc remains strong at the top of the EMS.

Although some recent measures to aid construction have been introduced, general economic stimulation has been rejected by French policy makers.

The upswing in economic activity in Italy that characterized late 1979 and early 1980 came to an abrupt halt in the late spring as industrial production fell 8.2 percent from April to May (not annual rate). After an impressive real GDP growth of 3.9 percent in 1979QIV, Italy recorded a 1.5 percent increase for first quarter 1980.

Consumer prices slowed to 0.9 percent in both May and June from April's 1.6 percent; wholesale price inflation reached a two-year low in May at 0.8 percent but rebounded to 1.1 percent in June.

The external payments situation has worsened. High labor costs and inflation have eroded Italy's export competitiveness, while the demand for imports has grown at over 5 percent annually. Higher oil prices and lower foreign demand have contributed to the external weakness. The first-half trade deficit (s.a.) was over $8 billion compared with about $.5 billion for the same period last year.

Several months of trade deficits, rising labor costs, and growing consumer demand prompted the second Cossiga government to propose, with opposition, the July 2 economic package directed at cooling the economy and slowing inflation. It includes an increase in VAT, the imposition of a withholding tax on industrial incomes, the further tightening of credit controls, and efforts to reduce tax evasion. Interest rates continue to increase.

In the smaller countries we have seen two discount rate reductions. In response to the continued strength of the guilder within the EMS and the downward movement of market interest rates, the Netherlands bank lowered its discount rate on July 21, from 9.5 percent to 9 percent. The Belgian National Bank lowered its rate, effective July 31st, from 13 percent to 12 percent in response to declining domestic and international interest rates and satisfactory performance by the Belgian franc.

In Sweden, consumer prices rose 7.8 percent (a.r.) in the second quarter, after a 24.2 percent increase during the first quarter. The first quarter figure reflects increases in administered prices, such as fuel and housing prices. In addition, part of the deceleration may be attributed to a temporary price freeze (March 29 to May 16) which was an unsuccessful attempt to avert a strike. The strike and associated lock-outs idled one quarter of the labor force for two weeks; a separate dockworkers strike lasted four additional weeks. These disputes were partially responsible for the unexpectedly large ($1-1/2 billion) trade deficit in the first half of 1980. Except for the tourist sector, all sectors of the economy seem to be recouping the output lost in the recent strike. In Norway and Denmark there has been no evidence of an abatement of inflation, and the monthly rate of increase of the CPI has averaged well over 1 percent for the first five months of 1980.