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Confidential (FR) Class II FOMC

August 18, 1982

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

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	8-6-82	110.5	3.6	3.2	1.7
Unemployment rate (%) 1/	July	8-6-82	9.8	9.5	9.4	7.2
Insured unemployment rate (%) 1/	June	8-13-82	4.7	4.6	4.3	3.4
Nonfarm employment, payroll (mil.)	July	8-6-82	89.8	-.2	-1.1	-1.7
Manufacturing	July	8-6-82	18.8	-5.7	-6.9	-7.6
Nonmanufacturing	July	8-6-82	71.0	1.2	.5	.0
Private nonfarm:						
Average weekly hours (hr.) 1/	July	8-6-82	34.9	34.8	34.9	35.3
Hourly earnings ($) 1/	July	8-6-82	7.70	7.66	7.59	7.27
Manufacturing:						
Average weekly hours (hr.) 1/	July	8-6-82	39.3	39.2	39.0	40.0
Unit labor cost (1967=100)	June	7-30-82	232.0	10.4	11.0	11.1
Industrial production (1967=100)	July	8-13-82	138.1	-.9	-6.0	-10.3
Consumer goods	July	8-13-82	144.5	6.7	6.8	-4.2
Business equipment	July	8-13-82	152.0	-24.7	-31.3	-17.7
Defense & space equipment	July	8-13-82	109.0	10.0	6.7	6.2
Materials	July	8-13-82	133.7	.0	-7.3	-13.9
Consumer prices all items (1967=100)	June	7-23-82	289.7	12.6	9.0	7.1
All items, excluding food & energy	June	7-23-82	277.0	10.5	10.2	8.5
Food	June	7-23-82	287.2	7.6	7.1	5.1
Producer prices: (1967=100)						
Finished goods	July	8-13-82	281.3	6.9	6.6	3.7
Intermediate materials, nonfood	July	8-13-82	316.0	6.1	3.4	1.2
Crude foodstuffs & feedstuffs	July	8-13-82	253.4	-32.7	-3.1	-4.3
Personal income ($ bil.) 2/	July	8-18-82	2,592.3	11.7	8.9	6.4
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	June	8-2-82	74.7	-1.9	-4.1	-14.1
Capital goods industries	June	8-2-82	24.7	-1.8	-15.7	-14.2
Nondefense	June	8-2-82	19.3	-5.2	-13.1	-19.8
Defense	June	8-2-82	5.4	12.6	-23.9	14.9
Inventories to sales ratio: 1/						
Manufacturing and trade, total	June	8-12-82	1.49	1.46	1.50	1.41
Manufacturing	June	8-2-82	1.71	1.72	1.78	1.61
Trade	June	8-12-82	1.29	1.24	1.26	1.22
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	June	8-2-82	.618	.611	.608	.574
Retail sales, total ($ bil.)	July	8-11-82	88.7	1.0	.5	1.6
GAF 3/	July	8-11-82	18.7	1.3	1.6	2.0
Auto sales, total (mil. units.) 2/	July	8-4-82	7.3	6.4	1.3	-10.3
Domestic models	July	8-4-82	5.1	7.9	-6.0	-13.1
Foreign models	July	8-4-82	2.2	3.0	23.1	-3.2
Housing starts, private (thous.) 2/	July	8-17-82	1,211	33.7	37.3	16.4
Leading indicators (1967=100)	June	7-30-82	127.9	.0	2.2	-5.4

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

The sharp decline in economic activity early in the year apparently has ended, but there are few indications of an upturn. Industrial production and employment were little changed in July. Retail sales so far have shown only a little improvement from a depressed June level, and there is evidence of a further weakening of capital outlays in the near term. On the positive side, housing starts rose substantially in July, and initial claims for unemployment insurance benefits have been somewhat lower in recent weeks. Moreover, progress continued to be made in reducing the underlying trend in inflation, with wage increases remaining moderate.

Employment and Unemployment

Nonfarm employment was about unchanged in July, as gains in trade and services about offset the continued contraction in the goods-producing sector. However, manufacturing employment continued to show weakness, falling another 90,000 in July, and mining was off 15,000. The composition of the contraction in industrial employment has shifted since the beginning of the recession when losses were concentrated primarily in the construction and consumer durables industries. The declines at these industries and at their suppliers have tapered off during the last several months while layoffs in oil- and gas-well drilling as well as in the industry that builds drilling machinery have become particularly large. Overall, the layoff rate appears to be slowing. Weekly claims for unemployment insurance, a measure of layoffs and leading business cycle indicator, have averaged 40,000 lower through late July than in the preceding two months--although they remain at a high level. The manufacturing workweek also has edged up slightly.

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

	1980	1981	1982 Q1	1982 Q2	1982 June	1982 July
	- - Average monthly changes - -					
Nonfarm payroll employment[2]	14	-7	-113	-148	-306	-17
Strike adjusted	8	-8	-111	-134	-280	-31
Manufacturing	-62	-40	-119	-130	-186	-90
Durable	-46	-32	-78	-95	-127	-48
Nondurable	-16	-8	-41	-35	-59	-42
Construction	-19	-22	-31	3	-46	-10
Trade	0	16	44	-18	-50	27
Finance and services	81	56	25	43	63	60
Government	11	-26	-19	-14	-36	33
Private nonfarm production workers	-23	-8	-90	-111	-226	-37
Manufacturing production workers	-69	-48	-103	-104	-140	-50
Total employment[3]	-27	-2	-40	91	-353	-32
Nonagricultural	-35	22	-87	87	-223	-134

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

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

	1980	1981	1982 Q1	1982 Q2	1982 June	1982 July
Total, 16 years and older	7.1	7.6	8.8	9.5	9.5	9.8
Teenagers	17.8	19.6	21.9	22.8	22.3	24.1
20-24 years old	11.5	12.2	14.0	14.5	14.4	14.4
Men, 25 years and older	4.8	5.1	6.4	7.1	7.5	7.5
Women, 25 years and older	5.5	5.9	6.6	7.2	7.2	7.4
White	6.3	6.7	7.7	8.4	8.4	8.7
Black and other	13.1	14.2	15.9	17.1	17.1	17.3
Fulltime workers	6.9	7.3	8.6	9.3	9.4	9.5
White collar	3.7	4.0	4.5	4.9	5.0	4.9
Blue collar	10.0	10.3	12.6	13.7	13.9	14.4

The unemployment rate climbed 0.3 percentage point to 9.8 percent in July with most of the increase occurring among labor force entrants. Unemployment remained high in July among adult men, reflecting the cumulative job losses in the predominantly male industrial industries. Although some adult women have continued to find employment in the still-growing service-producing sector, their unemployment also rose in July. While layoffs may be slowing, the prospects for rehiring appear a bit weaker compared with earlier cyclical troughs. Only 19 percent of the unemployed report that they are on layoff and expecting recall as compared with 23 percent during the 1975 and 1980 recessions.

Industrial Production

Industrial production edged down 0.1 percent in July, following declines that averaged 0.6 percent in the previous six months and that have totaled about 10 percent since July 1981. Business equipment production, one of the weakest sectors in recent months, dropped another 2.1 percent in July. Consumer goods output rose further, but this reflected mainly an increase in auto output. Assemblies were at an annual rate of 6.6 million units in July, well above the sales pace for a second month; as a result, the industry has scheduled a sharp reduction in August assembly schedules to a 5.5 million unit rate.

Over the past year business equipment output has declined about 18 percent--substantially more than in the two preceding recessions. The sharpest cutbacks have occurred in building and mining equipment, reflecting extraordinary curtailments in oil-well drilling activity over the past seven months. Office and computing equipment, a source of relative strength in 1981 and early 1982, has been declining since March.

INDUSTRIAL PRODUCTION
(Average monthly changes; percent)

	1981		1982	
	January to June	July to December	January to June	July
Total	.3	-1.0	-.6	-.1
Consumer goods	.4	-.9	.2	.6
Autos	2.6	-6.0	5.1	12.5
Other	.3	-.6	0	-.1
Equipment	.5	-.1	-1.6	-1.2
Business	.6	-.4	-2.2	-2.1
Defense and Space	.1	.9	.2	.8
Construction Supplies	-.2	-1.9	-.8	.2
Materials	.2	-1.6	-.6	.0

EQUIPMENT OUTPUT

	Proportion of total equipment June 1982	Percent change		
		Average recession[1]	Sept. 1974 to Mar. 1975	July 1981 to July 1982
Business Equipment	71	-12.8	-14.2	-17.7
Building & Mining	11	-9.5	0	-32.4
Manufacturing	15	-15.0	-15.0	-20.2
Power	7	-6.3	-11.4	-15.6
Commercial	28	-10.3	-19.0	-9.4
Transit	8	-25.2	-20.5	-14.6[2]
Farm	2	5.2	-4.7	-30.2[3]
Defense and Space	29	-6.8	-4.2	6.2

1. Defined in terms of cyclical movements of total IP: Aug. 1957-Apr. 1958, May 1960-Feb. 1961, Oct. 1969-Nov. 1970, Sept. 1974-Mar. 1975.
2. -29.0 percent since July 1979.
3. -45.4 percent since July 1979.

Production of manufacturing equipment, which includes items such as metal-working and general industrial equipment, has dropped about 20 percent over the last year--about in line with other postwar recessions.

Capacity utilization in manufacturing edged downward in July to about 69-1/2 percent. Utilization has fallen more than 10 percentage points during the last year and is now close to its March 1975 low. The amount of slack is especially great among producers of industrial materials.

Personal Income and Consumer Spending

Mainly because of the estimated $25 billion cut in tax withholding and an $11 billion Social Security cost-of-living adjustment, disposable personal income rose at a hefty $44-3/4 billion annual rate in July. Wages and salaries, which account for most of the cyclical variation in income, increased $7 billion--only slightly faster than the monthly average rise in the first half of the year.

Consumer spending in July did not appear to show much response to the July tax cut. Retail sales increased 1 percent, recovering only part of a 3.3 percent June plunge. Excluding sales at automotive outlets and those with mainly nonconsumer items, spending in July increased 1/2 percent, and was slightly above the second-quarter average. Apparel and general merchandise stores performed better than average in July, but furniture and appliance sales were down.

Auto sales were a major factor in the swings in consumer spending in both June and July. Unit sales of domestic cars fell sharply in June to 4.8 million units a year, the lowest selling pace yet during the recession, and they recovered slightly to only a 5.1 million unit rate in July. General Motors started a new dealer incentive program in the last

PERSONAL INCOME

	1980	1981	1981 Q4	1982 Q1	1982 Q2	1982 May	1982 June	1982 July
	- - - - Percentage changes at annual rates[1] - - - -							
Total personal income	11.1	10.4	6.1	2.6	7.0	10.2	4.6	11.7
Wage and salary disbursements	9.9	8.4	5.1	2.8	3.9	10.7	1.6	5.5
Private	9.6	8.7	3.4	2.1	3.7	12.1	.9	3.4
Disposable personal income								
Nominal	11.0	10.4	8.3	3.0	7.3	4.2	2.4	24.8
Real	.6	2.6	1.2	-1.8	3.6	.7	-8.4	n.a.
	- - - - - Changes in billions of dollars[2] - - - - -							
Total personal income	19.2	17.9	6.3	7.0	16.2	21.6	9.9	25.1
Wage and salary disbursements	10.8	8.8	2.8	4.0	6.6	13.8	2.1	7.0
Private	8.5	7.1	.4	2.7	5.4	12.6	.9	3.6
Manufacturing	2.4	1.1	-2.8	-.2	.9	2.5	.4	-.5
Other income	9.1	10.3	3.7	4.2	10.0	8.6	7.9	18.6
Transfer payments	4.3	2.9	2.4	1.3	3.3	1.2	2.2	12.8
Less: Personal contributions for social insurance	.7	1.2	.2	1.3	.4	.8	.1	.7
Memorandum:								
Personal saving rate	5.8	6.4	7.5	6.6	6.9	6.4	7.2	8.1

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 periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.
n.a.-not available

part of July, and Ford followed suit in August, but sales in the first ten days of August edged up only slightly further to a 5.3 million unit annual rate.

Business Fixed Investment

Real outlays for producers' durable equipment fell at an 8-1/2 percent annual rate in the second quarter, as business purchases of motor vehicles weakened and spending was cut back for nonelectrical machinery. In contrast to equipment outlays, investment in structures edged up in the second quarter, reflecting continued increases in commercial and industrial building activity, and a reported rise in oil- and gas-well drilling. However, the data for energy drilling reported in the national income accounts tend to lag new activity, and the second quarter gain reflects earlier strength. More recently, the number of rotary rigs in operation, a series that leads reported drilling by about six months, has been falling sharply.

Advance indicators of business fixed investment suggest further weakness in the capital goods sector in the months ahead. Orders for nondefense capital goods, which have been below shipments for 11 of the past 12 months, fell further in June to a level 15 percent below shipments, and there are indications that the strength in commercial building activity is waning. Vacancy rates for commercial office space have risen to 7 percent from 4 percent in 1980. Although this is well below the level that accompanied the collapse in commercial building in the mid-1970s, it does suggest that there is diminishing incentive to undertake new commercial building projects.

RETAIL SALES
(Percent change from preceding period except where indicated; based on seasonally adjusted data)

	1981	1982		1982	1982		
	Q4	Q1	Q2	July/Q2	May	June	July
Total sales	-1.3	.1	2.7	-.3	2.9	-3.3	1.0
(Real)[1]	-2.4	-.7	2.1	...	2.4	-4.6	...
Total, less autos and nonconsumption items	.4	.2	.7	.4	1.7	-1.1	.5
Total, exc. auto group, gasoline, and nonconsumption items	.4	.5	1.5	.3	1.7	-1.3	.6
GAF[2]	-.1	-.3	1.4	.2	3.9	-3.5	1.3
Durable goods	-5.6	.0	7.0	-2.3	5.1	-7.9	1.6
Automotive	-7.3	.2	11.4	-3.6	7.4	-11.4	2.2
Furniture & appliances	-.8	-4.7	2.2	-2.8	.5	-3.1	-.9
Nondurable goods	.7	.2	.8	.6	1.8	-1.0	.7
Apparel	-.9	4.3	-1.3	1.5	5.4	-4.0	2.6
Food	1.7	-.2	1.9	-.7	2.1	-1.9	.0
General merchandise[3]	.5	-.5	2.2	.8	4.5	-3.4	1.6
Gasoline	.4	-2.1	-5.3	.6	1.4	.3	-.1

1. BCD series 59. Data are available approximately 3 weeks following the retail sales 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.

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

	1982		1982			
	Q1	Q2	Apr.	May	June	July
Total	8.1	7.5	7.3	8.4	6.9	7.3
Foreign-made	2.2	2.0	1.8	2.0	2.2	2.2
U.S.-made	5.9	5.5	5.5	6.4	4.8	5.1
Small	3.0	2.5	2.4	2.9	2.2	2.4
Intermediate & standard	2.8	3.0	3.0	3.5	2.6	2.7

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

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

	1981	1982		1982			
	Q4	Q1	Q2	Apr.	May	June	July
Nondefense capital goods shipments							
Current dollars	-.4	-5.6	-3.3	-6.1	3.9	-3.0	n.a.
Addendum: Sales of heavy-weight trucks (thousands)	201	217	173	170	187	162	158
Nonresidential construction							
Current dollars	.5	1.7	1.7	-.6	.7	4.2	n.a.
Addendum: Oil and gas well drilling (millions of feet)	34.9	34.9	40.8	42.8	42.4	37.1	n.a.

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

	1981	1982		1982		
	Q4	Q1	Q2	Apr.	May	June
Nondefense capital goods orders						
Current dollars	-6.5	-5.2	-4.9	2.0	-10.1	-5.2
Machinery						
Current dollars	-2.7	-10.7	-4.2	3.5	-4.5	-10.1
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	5.84	5.94	5.86	6.24	5.87	5.90
Machinery	4.37	4.30	4.26	4.54	4.34	4.30
Nonresidential building contracts						
Current dollars	-16.9	5.9	-14.9	-27.3	14.9	-27.6

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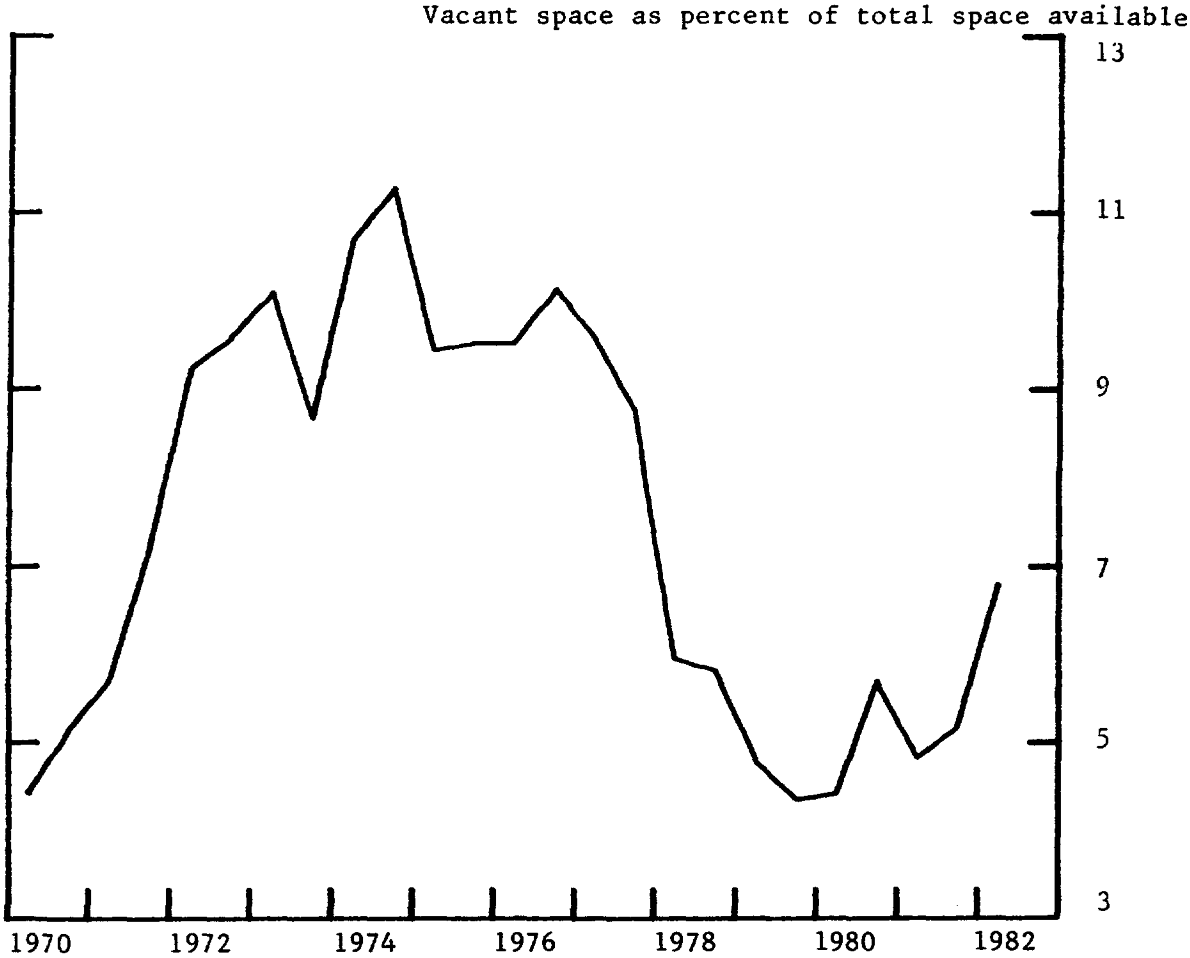
VACANCY RATES FOR COMMERCIAL OFFICE SPACE



Source: Building Owners & Managers Association

Housing

New residential construction pursued its zigzag recovery through the early summer. Total private housing starts jumped by a record 34 percent in July to a 1.2 million unit annual rate; this rise more than reversed the decline registered the previous month. Both starts and building permits last month were well above their second-quarter average, extending the gradual upswing that developed during the first half of the year. From the cyclical lows of late last year housing starts had risen 11 percent by the second quarter of 1982, and newly-issued permits were up 21 percent. These increases were less robust--and less broadly based by region and type of structure--than typical during the first two quarters of recent housing upswings.

The upsurge in house sales that usually provides the basis for increased single-family starts has yet to materialize. After rising a bit late last year, sales of new units in the second quarter of 1982 dropped to the lowest quarterly pace since data collection began in 1963. The market for existing houses has shown no sign of a recovery, and sales have remained below the 2 million unit rate since last fall.

Average prices of both new and existing houses sold in June were only 3 percent above a year earlier, even though many reported sales prices may be overstated because they incorporate premiums for "concessionary" seller financing. The rise in measured house prices has decelerated in a period when the advance in construction costs has slowed to 5 percent during the last four quarters from the 9 and 11 percent recorded in the previous two years.

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

	1981		1982				
	Annual	Q4	Q1	Q2	May	June	July
All units							
Permits	0.99	0.76	0.82	0.92	0.94	0.93	1.10
Starts	1.08	0.87	0.92	0.95	1.07	0.91	1.21
Single-family units							
Permits	0.56	0.42	0.45	0.49	0.49	0.52	0.50
Starts	0.71	0.54	0.59	0.60	0.63	0.62	0.61
Sales							
New homes	0.44	0.40	0.39	0.36	0.40	0.34	n.a.
Existing homes	2.35	1.92	1.93	1.92	1.90	1.95	n.a.
Multifamily units							
Permits	0.42	0.34	0.37	0.43	0.46	0.41	0.60
Starts	0.38	0.33	0.33	0.35	0.44	0.29	0.60
lobile home shipments	0.24	0.21	0.24	0.25	0.25	0.26	n.a.

1. Preliminary estimates.
n.a. Not available.

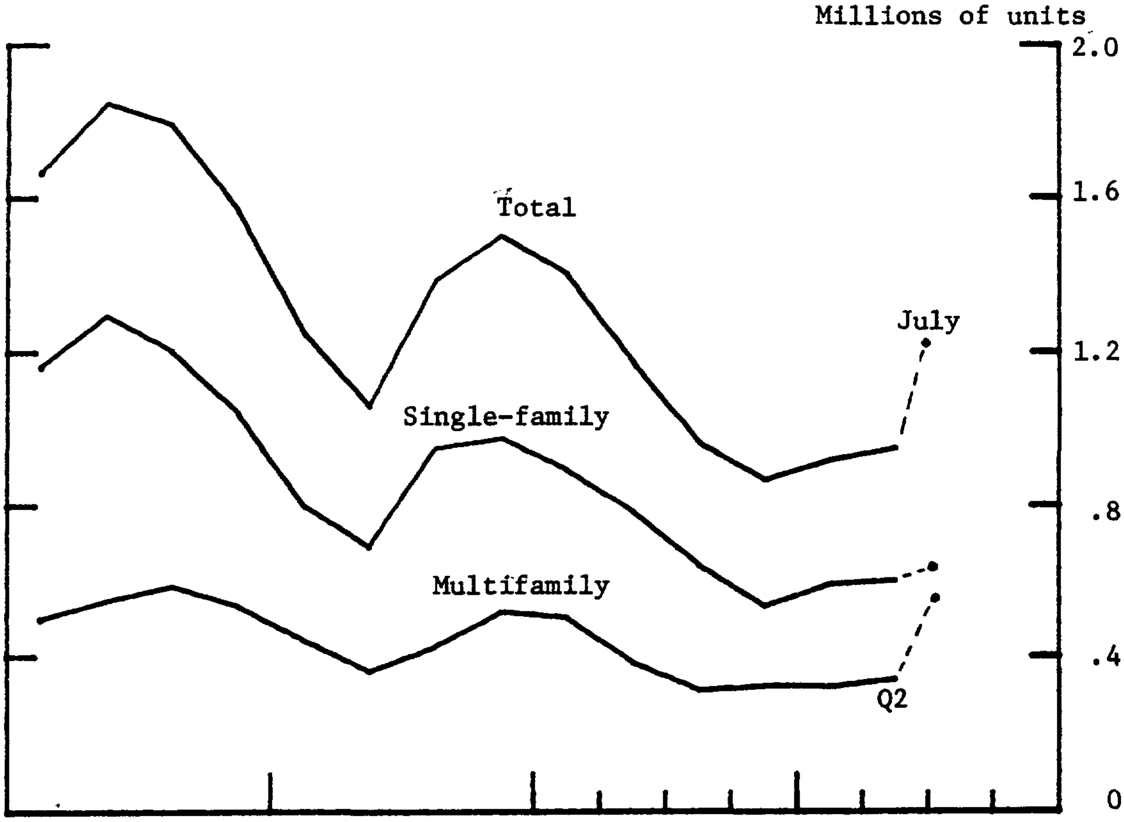
Multifamily housing starts more than doubled in July, after registering the highest level in a year during the second quarter. Ownership units in multifamily structures (condominiums and co-ops) have fared relatively well in current markets. These units currently account for around two-fifths of multifamily starts. Part of the recent strength in this sector is apparently due to the increase in starts under the HUD section 8 program, which provides rental subsidies for low-income projects. During the May to July period, HUD reported such activity to be about double the depressed volume in the same months of 1981. New construction under this program is being terminated at the end of the current fiscal year, and many projects left "in the pipeline" will be started in the next few months.

Inventory Investment

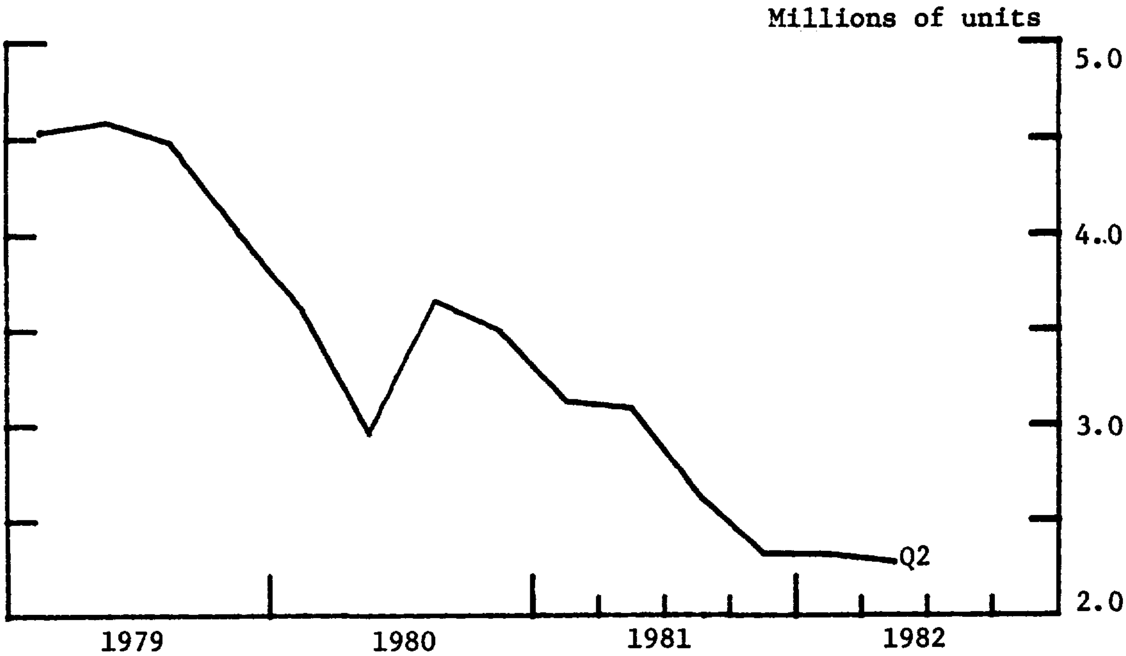
While sharp production cutbacks have resulted in a liquidation of most of the inventories accumulated in the second half of last year, the rate of stock runoff slowed during the second quarter, contributing to the rise in GNP. Moreover, with sales quite weak, stock-sales ratios in the aggregate are still quite high. In constant dollar terms, the manufacturing and trade inventory-sales ratio for June was 1.74--about halfway between the January peak of 1.80 and the prerecession level of 1.67.

Progress toward correction of inventory imbalances has been uneven. Nondurable stocks seem to be more in line with sales than durable stocks. Although most manufacturers have been successful in paring their stocks through sharp production cutbacks, shipments in a few heavy industries, particularly primary metals and nonelectrical machinery, have been so weak that these industries have been unable to improve their positions significantly.

PRIVATE HOUSING STARTS



HOUSING SALES: NEW AND EXISTING



CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates)

	1979	1980	1981 Q4	1982 Q1	Q2	Apr.	May (r)	June (p)
Book Value Basis								
Total	47.0	38.4	18.5	-29.0	-3.0	25.4	-54.3	19.9
Manufacturing	30.4	23.0	3.8	-12.3	-19.8	-13.0	-30.4	-16.0
Durable	22.6	14.1	3.0	-9.5	-7.0	-1.8	-12.6	-6.6
Nondurable	7.8	8.9	.8	-2.9	-12.8	-11.2	-17.9	-9.4
Wholesale Trade	10.0	10.6	9.5	-7.2	12.6	40.2	-14.2	11.6
Retail Trade	6.7	4.9	5.3	-9.4	4.2	-1.9	-9.7	24.2
Constant Dollar Basis								
Total	4.8	-1.7	1.7	-15.5	----	10.4	-19.1	----
Manufacturing	5.2	.9	-3.6	-8.1	----	-5.3	-6.6	----
Wholesale Trade	.9	5	4.8	-3.4	----	14.9	-9.8	----
Retail Trade	-1.3	-3.0	.6	-4.0	----	.8	-2.7	----

INVENTORIES RELATIVE TO SALES[1]

	1974 Cyclical Peak[2]	1980 Cyclical Peak[2]	1981 Q4	1982 Q1	Q2	Apr.	May (r)	June (p)
Book Value Basis								
Total	1.64	1.52	1.51	1.51	1.49	1.52	1.46	1.49
Manufacturing	1.95	1.76	1.75	1.79	1.73	1.79	1.72	1.71
Durable	2.51	2.35	2.35	2.41	2.35	2.41	2.33	2.34
Nondurable	1.39	1.18	1.16	1.18	1.12	1.18	1.13	1.11
Wholesale Trade	1.24	1.19	1.16	1.14	1.17	1.19	1.14	1.17
Retail Trade	1.57	1.46	1.45	1.42	1.40	1.40	1.35	1.42
Constant Dollar Basis								
Total	1.76	1.76	1.76	1.76	----	1.77	1.72	----
Manufacturing	2.18	2.11	2.12	2.15	----	2.16	2.11	----
Wholesale Trade	1.40	1.47	1.45	1.43	----	1.46	1.39	----
Retail Trade	1.52	1.45	1.47	1.46	----	1.45	1.41	----

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Highs are specific to each series and are not necessarily coincident.
r Revised estimates.
p Preliminary estimates.

As sales fell in June, retailers increased their book-value inventories, returning their stocks to January levels after five consecutive monthly declines. The June buildup was largely in autos, but most non-auto stocks rose, particularly those at general merchandise stores. As a result, retailers' inventory position deteriorated. The inventory-sales ratio for retailers trade jumped to 1.42 at the end of June--not a great deal better than its January peak of 1.46.

Wholesalers' mid-year inventories still appear to be burdensome. By May, merchant wholesalers had liquidated only about one quarter of the stocks they accumulated since the recession began, and book value data for June show further worsening in their inventory position--a sizable book-value increase accompanied by declining sales.

Federal Government

The tax cut and spending legislation that was passed last year, the effects of the recession, and a sharp drop in spending for agriculture price support programs by the Commodity Credit Corporation (CCC) combined in the second quarter to hold down the increase of both federal receipts and expenditures measured on an NIPA basis. The federal deficit declined slightly to $116 billion at an annual rate as expenditures increased more slowly than receipts.

Aside from the swings in CCC, outlays continued their recent upward trend in the second quarter. Most nondefense purchases and grant programs remain restrained by last year's budget cuts, but increased unemployment outlays and a cost-of-living adjustment in Civil Service pensions helped boost total spending in the second quarter. Interest outlays also increased due to a higher average effective interest rate and growth of the national debt.

On the receipts side of the budget, revenues were constrained by low nominal income growth and by the provision of last year's Economic Recovery Tax Act (ERTA). The accelerated cost recovery provisions of the bill as well as declining corporate profits have contributed to declines in corporate profits tax accruals. Receipts from personal taxes have remained about unchanged as some cuts in nonwithheld income tax payments offset slower income growth.

The second stage of the withholding reductions that implement the personal income tax cut portion of ERTA went into effect on July 1. Although the legislation specified a 10 percent reduction in liabilities, calculations based on the new withholding tables suggest that the cut in withholding was only about 8.5 percent. However, this smaller-than-specified cut should not result in larger refunds next April since the withholding reductions that implemented the first stage of the tax cut on October 1, 1981, were too large--about 5.8 percent instead of the 5.0 percent specified in ERTA. For the year as a whole, withholding should be about as contemplated in ERTA, and the tax tables that individuals will use to compute their 1982 returns show a full 10 percent cut.

The administration released its Mid-Session Review of the 1983 budget in late July. The Review assumes implementation of the aggregate deficit-reducing measures in the congressional First Budget Resolution and projects deficits of $109 billion for FY 1982 and $115 billion for FY 1983. Action on two bills that implement the tax increases and a part of the outlay reductions assumed in the First Budget Resolution has been completed by House-Senate conferences, and votes on these bills are expected in both

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

	Relative importance Dec. 1981	1980	1981	1981 Q1	1981 Q2	1981 May	1981 June
All items	100.0	12.4	8.9	1.0	9.3	11.4	12.6
Food	16.6	10.2	4.3	3.9	7.3	10.2	7.6
Energy[3]	11.1	18.1	11.9	-8.0	12.9	19.4	49.2
Homeownership	26.1	16.5	10.1	-2.4	19.8	22.0	16.9
All items less food, energy, homeownership[4]	49.8	9.9	9.4	5.4	6.9	4.4	8.3
Used cars	3.3	18.3	20.3	5.5	3.5	1.2	2.5
Other commodities[4]	19.9	8.1	6.1	4.8	3.7	2.9	4.6
Other services[4]	26.6	10.3	10.6	6.3	8.0	7.7	7.2
Memorandum:							
Experimental CPI[4]	100.0	10.8	8.5	2.7	5.8	7.0	12.0

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
3. Include home maintenance and repairs items of homeownership costs.
4. BLS experimental index for "All items"—CPI-U-X1—which uses a rent substitution measure for homeownership costs.

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

	Relative importance Dec. 1981	1980	1981	1982 Q1	1982 Q2	1982 June	1982 July
Finished goods	100.0	11.8	7.1	.9	4.1	12.6	6.9
Consumer food	21.9	7.5	1.4	6.1	11.5	5.5	-17.7
Consumer energy	12.7	27.8	14.1	-18.5	-15.7	49.1	69.0
Other consumer goods	44.6	10.4	7.1	3.9	5.3	8.3	3.6
Capital equipment	20.8	11.4	9.2	2.4	6.2	9.5	5.6
Intermediate materials[2]	94.7	12.4	7.4	-1.8	-1.4	3.8	6.1
Exc. energy	77.6	10.1	6.6	.1	.4	-1.7	-1.2
Crude Materials							
Food	50.7	8.6	-14.0	23.3	24.3	-7.8	-32.7
Energy	33.6	26.9	22.8	-5.8	2.0	12.1	11.5
Other	15.7	7.5	-11.4	-40.3	24.9	-4.0	12.6

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
2. Excludes materials for food manufacturing and animal feeds.

houses later this week. A summary of these bills and of recent budget actions leading to the Mid-Session Review is included in appendix II-A.

State and Local Government

Outlays by state and local governments continue to be weak. Preliminary second quarter data show real purchases virtually unchanged after falling at an annual rate of 1 percent in the first quarter. Contruction activity continued to drop; in real terms the cumulative decline in new construction from January to June has been 5.1 percent.

Budget problems are still plaguing a number of states despite retrenchment on the spending side and numerous tax and fee increases. Although only a few states actually expect to end fiscal year 1982 with a deficit, reserves have declined from 4.5 percent of expenditures in fiscal year 1981 to an estimated 1.5 percent in fiscal year 1982, according to a survey by the National Governors Association and the National Association of State Budget Officers. Generally, a reserve of 5 percent is considered to be a safe margin. Partly as a result of budget-balancing measures, state and local personal taxes increased at a 6.6 percent annual rate in the second quarter and indirect business taxes rose at a 12.2 percent annual rate.

Prices

Despite increases in the CPI of 1 percent in each of the past two months, this year's moderation in inflation continues to be fairly broad-based. The rapid rise in consumer prices in May and June reflected a sharp bounceback in gasoline prices and very large increases in the CPI measure of house prices. Excluding the volatile food, energy, and homeownership figures, inflation in the consumer sector since December was the lowest half-year rate in more than four years. At the producer level, price increases for investment goods also have slowed dramatically in the face of deteriorating sales in the capital goods industries. Moreover, a decline in materials costs during the first half of 1982, along with sharply reduced labor cost increases, promises further improvement in the inflation picture.

Homeownership costs continued to boost the official CPI in June, but the home price index has become increasingly unreliable. The CPI home price index rose 12 percent at an annual rate in the first half of 1982, far more than the 3 percent rise indicated by more comprehensive measures. The CPI mortgage interest rate index has remained near an implied level of 15 percent for several months.

Food price increases in May and June were larger than in the two preceding months, owning mainly to sharp advances in retail meat prices; but inflation rates remained very low for consumer foods other than meats. The spurt in meat prices appears to have lost some of its momentum around mid-year as cattle prices plummeted in the July PPI, while hog prices also turned down. In addition, at the farm level, grain and soybean prices have tumbled as prospects for another good harvest have become more certain. If maintained, declines in crop prices will help contain cost pressures in the food sector in the coming year, but they are also cutting deeply into farm proprietors' profits.

Retail gasoline prices increased more than 5 percent in June, but recent surveys indicate they have since been relatively stable. Furthermore, spot prices of petroleum appear to have remained steady at levels below the official OPEC prices.

SELECTED MEASURES OF COMPENSATION, PRODUCTIVITY,
AND COSTS IN THE NONFARM BUSINESS SECTOR
(Seasonally adjusted annual rates)

	1980	1981	1981 Q3	1981 Q4	1982 Q1	1982 Q2	Year-to-date
Hourly Earnings Index - production workers[1]							Dec. 1981-July 1982
Total private nonfarm	9.6	8.4	8.5	7.3	6.5	6.3	6.2
Manufacturing	10.9	8.8	8.7	7.7	8.7	6.7	7.5
Contract construction	7.7	8.1	8.9	8.8	9.0	2.4	4.7
Transportation and public utilities	9.3	8.5	6.4	7.7	7.4	5.9	4.4
Trade	8.8	7.1	8.0	4.3	3.8	6.3	4.3
Services	9.5	9.1	9.3	9.2	5.1	7.4	7.4
Employment Cost Index, wages and salaries - all persons[2]							1981-Q4 to 1982-Q1
Total	9.0	8.8	8.4	7.7	7.2	n.a.	7.2
By Occupation:							
White collar	8.7	9.1	7.5	9.1	7.2	n.a.	7.2
Blue collar	9.6	8.6	9.3	6.9	6.4	n.a.	6.4
Service Workers	8.1	8.3	8.5	6.5	7.9	n.a.	7.9
By Bargaining Status:							
Union	10.9	9.6	10.4	8.9	7.1	n.a.	7.1
Nonunion	8.0	8.5	7.7	7.7	6.5	n.a.	6.5
Labor Productivity and Costs - all persons[1]							1981-Q4 to 1982-Q2
Compensation per hour	10.6	8.8	9.0	7.3	10.1	6.2	8.0
Output per hour	.3	-.1	-.3	-3.5	2.6	2.3	2.4
Unit labor costs	10.2	8.9	9.3	11.2	7.4	3.8	5.6

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates; monthly changes are not compounded.
2. Percent change from final month of previous period, compounded. Seasonal adjustment by FRB staff.

Wages and Productivity

A broad range of measures indicate a continued deceleration in wages during 1982-H1 in response to unemployment rates that have now exceeded 7 percent for more than two years, as well as to the drop in inflation. The rate of increase in the hourly earnings index, which had slowed more than 1 percentage point during 1981, has decelerated a further 2 percentage points to a 6.2 percent rate so far this year. While this measure only covers the wages of production workers, the latest quarter's data from the employment cost index show that the slowing also has occurred in salary rates for white collar workers. The broadest measure of labor costs, hourly compensation, which covers both wages and fringes, is now rising about 1 percentage point slower than last year.

Wage concessions, defined as any agreement significantly less than traditional wage-setting practices, are one part of this slowing. These concessions have now affected more than 10 percent of the unionized workforce. While scheduled adjustments have continued to boost union wages by more than 4 percent a year, the contribution of both new settlements and COLAs has declined dramatically. Halfway through a heavy bargaining year, increases in wage rates provided by new settlements have averaged only 2.7 percent over the life of the contract (excluding COLAs); this compares with the 7.7 percent increases these same parties received when they last bargained almost three years ago.

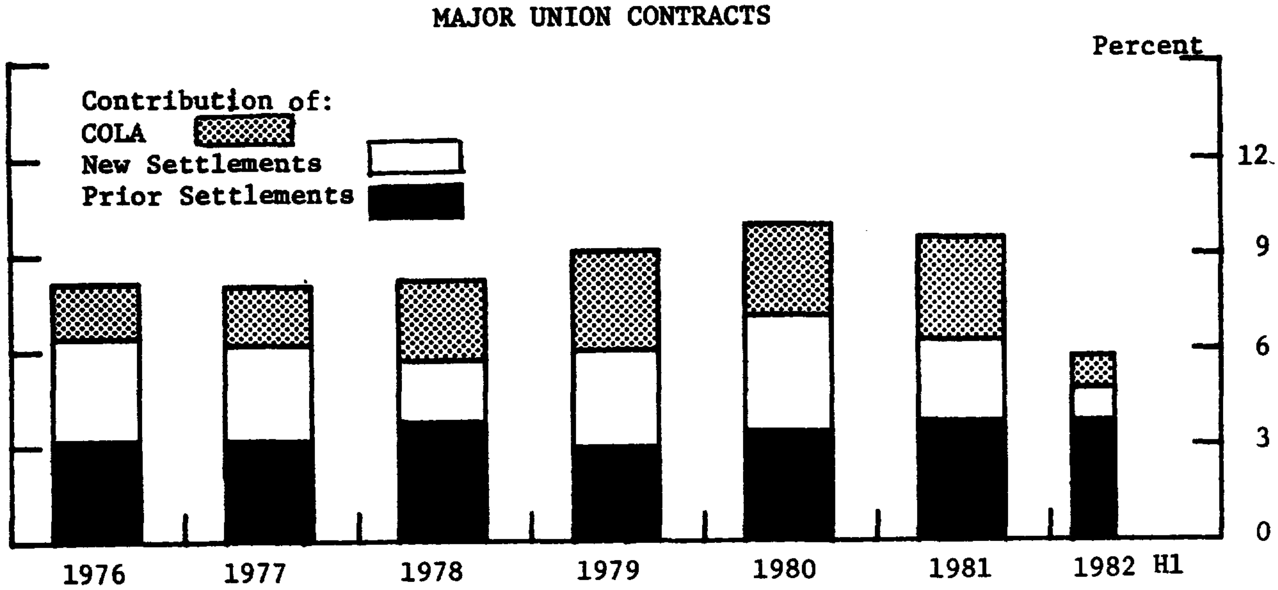
A cyclical productivity rebound in the first half of 1982 also has eased the pressure of higher compensation costs on prices. Output per

NEGOTIATED WAGE-RATE CHANGES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change)

	1980	1981	Same parties as during 1982 under prior settlements	1982 First 6 months
All Industries				
First-year adjustments	9.5	9.8	7.7	3.0
Average over life of contract	7.1	7.9	6.0	2.7
Workers affected (in thousands)	3787	2295	---	1885
Contracts with escalator provisions				
First-year adjustments	8.0	8.2	n.a.	1.4
Average over life of contract	5.0	5.5	n.a.	1.2
Workers affected (in thousands)	2268	612	---	1369
Contracts without escalator provisions				
First-year adjustments	11.7	10.8	n.a.	7.2
Average over life of contract	10.3	9.1	n.a.	6.8
Workers affected (in thousands)	1489	1683	---	516

1. Contracts covering 1,000 or more workers; estimates exclude potential gains under cost-of-living clauses.

EFFECTIVE WAGE CHANGE IN
MAJOR UNION CONTRACTS



hour grew 2-1/2 percent in both the first and second quarters. A surge in productivity growth is common during the latter stage of a recession when output stabilizes while employers continue to cut labor input in lagged response to earlier output declines.

Appendix II-A

THE FEDERAL BUDGET AT MID-SESSION

The Administration released its Mid-Session Review of the budget, required by the Budget Act of 1974, late in July. This review updated its February budget to take into account actual economic developments thus far in the current year, and to incorporate minor program revisions and technical re-estimates. For 1983, the economic assumptions that underlie the budget estimates were revised to reflect the rates of growth of nominal and real income and the interest rates assumed by the Congress in its First Concurrent Resolution on the budget. The budget totals (but not individual components) also were adjusted to reflect the aggregate amount of deficit-reducing measures in the Congressional budget resolution, as these involved both slightly larger spending reductions and larger revenue raising measures than were assumed in the Administration's original 1983 budget proposals. Table 1 compares the deficit-reducing measures in the Administration's February budget and in the Congressional resolution.

At about the same time that the Administration released its Mid-Session Review, the Director of the Congressional Budget Office (CBO) indicated in testimony that a preliminary review by CBO of the economic outlook and budget prospects suggested that federal budget deficits in fiscal years 1982 and 1983 would exceed those in the Congressional resolution. Tables 2 and 3 show that a major element in the upward revisions in the estimates of the deficits for these two years, by both the Administration and CBO, has been a weaker economic outlook; forecasts of inflation have also been lowered somewhat.

In the Mid-Session Review, the Administration emphasized that it attached high priority to the achievement of the deficit-reducing measures contained in the Congressional budget resolution. Since the Mid-Session review was released, House-Senate Conference committee action has been completed on two bills that implement parts of these measures; votes on these bills are expected in both houses of the Congress this week. One of these bills contains the revenue-raising measures and the reductions in entitlements under the jurisdiction of the Senate Finance and House Ways and Means committees. This bill is reported to contain provisions that reduce spending for entitlement programs by a cumulative amount of $15.2 billion (principally medicare and medicaid) over three years. (It would also raise outlays by liberalizing extended unemployment compensation in high-unemployment states.) Revenues are reported to be raised by a cumulative total of $98.3 billion over the same period. The revenue-raising provisions do not change the reductions in personal income tax rates enacted last year but do scale back some of the business depreciation, investment tax credit, and leasing provisions in the Economic Recovery Tax Act (ERTA) of 1981.

Under the provisions of the revenue-raising bill:

- o Individual income tax provisions would be tightened by
  - -- limitations on deductions for medical expenses and insurance and uninsured casualty losses
  - -- an expanded alternative minimum tax (the add-on minimum tax would be eliminated)
  - -- limits on contributions and benefits available under pension plans

- o Excise taxes would be increased by raising the cigarette tax from 8 to 16 cents a pack, raising the tax on telephone services from 1 to 3 cents for 1983-85 (after which, it would be removed), and raising the airline ticket tax from 5 to 8 percent (plus increases in other taxes related to air travel).

- o Corporate taxes would be raised by
  - -- reducing the depreciable value of investments by half the amount of the investment tax credit (or reducing the amount of the credit utilized) and cancelling the further acceleration of depreciation scheduled to take place in 1985 and 1986
  - -- limitations on leasing provisions in ERTA and expiration of the ERTA leasing provisions entirely for property placed in service after 1983; conventional leasing rules would be liberalized after 1983

- o Corporate tax revenues would also be raised by tightening specialized provisions including
  - -- reduction by 15 percent in the value of certain tax preferences, including percentage depletion for coal and iron ore, bad debt reserves, Domestic International Sales Corporations, pollution control facilities, and interest on debts used by financial institutions to carry tax-exempt securities acquired after 1982
  - -- tighter limitations on the use of industrial development bonds and disallowance of "small-issue" industrial development bond use after 1985
  - -- tighter provisions pertaining to mergers and acquisitions;
  - -- a requirement that businesses capitalize construction period interest and taxes for nonresidential property;
  - -- restrictions on the deferral of taxes on income from longer-term contracts
  - -- limitations on favorable tax treatment for life insurance companies through use of co-insurance
  - -- some reduction in the tax advantages to companies operating in Puerto Rico
  - -- tightened treatment of original issue discount bonds

- o Tax compliance would be increased by
  - -- imposing a withholding tax of 10 percent on interest and dividends; exceptions would be made for low income individuals and most elderly and for interest of less than $150 per year from any single institution
  - -- stricter reporting of restaurant tips
  - -- acceleration of corporate tax payments within the year when the liability is incurred

This bill also would extend the targeted jobs credit for hiring certain hard to employ groups; the credit, which had been scheduled to expire, would apply to individuals who begin work before 1986.

The second bill that implements a portion of the outlay reductions contained in the Congressional budget resolution would delay cost of living increases for federal pensioners, limit price supports for farm products, and make further cuts in the foodstamp program. Extremely preliminary estimates of the outlay reductions that would result from this bill are reported to total about $13 billion over three years.

The remaining outlay reductions assumed in the Congressional budget resolution are to be achieved by limiting annual appropriations below current services levels, administrative management measures to reduce costs and the lower estimates interest costs below baseline assumptions as a result of smaller deficits to be financed and a projected response of interest rates to the improved deficit outlook. Congressional action on the appropriations bills is in a very early stage.

Table 1

BUDGET REDUCTION INITIATIVES
(unified budget; fiscal year; billions of dollars)

	1983	
	Administration	Congress
Defense (excluding pay and retirement)	--	7.8
Federal pay	1.4	5.1
Discretionary appropriated programs	11.5	5.9
Entitlements	12.8	6.6
Management initiatives	13.4	13.7
User fees (offsetting receipts)	1.2	1.1
Other	--	1.2
Subtotal	40.3	41.4
Interest	2.7	14.5
Total Outlay Reductions	43.0	55.9
Revenue Increases	12.8	20.9
TOTAL DEFICIT REDUCING MEASURES	55.8	76.8

Table 2

REVISIONS OF THE ADMINISTRATION'S BUDGET ESTIMATES
(fiscal years, billions of dollars)

	1982	1983
Outlays		
February Estimate	725.3	757.6
Technical re-estimates and minor program changes[1]	+4.7	+10.5
Economic assumptions		
Unemployment compensation	+0.7	+1.7
Net interest	+0.2	-2.5
Social security (lower inflation)	-0.4	-1.0
Other	+0.4	-0.7
Subtotal, economic assumptions	+0.9	-2.5
Adjustment for Budget Resolution[2]	--	-4.1
Mid-Session Review Estimate	731.0	761.5
Receipts		
February Estimate	626.8	666.1
Technical re-estimates and minor program changes	+6.3	-0-
Economic assumptions	-11.0	-27.6
Adjustment for Budget Resolution	--	+8.1
Mid-Session Review Estimate	622.1	646.5
Deficit		
February Estimate	98.5	91.5
Mid-Session Review Estimate	108.9	115.0

1. The largest component is upward revisions of Commodity Credit Corporation outlays.
2. Includes effect on interest outlays of larger deficit reducing measures.

Note: Details do not add to totals due to rounding.

Table 3

CBO REVISIONS OF DEFICIT ESTIMATES
(fiscal years; billions of dollars)

	1982	1983
Congressional Resolution target	-105.7	-103.9
Technical re-estimates[1]	-8.1	-12.5
Economic assumptions[2]	--	-25 to -35
Current CBO Deficit Estimate[3]	-109 to -114	-141 to -151

1. Re-estimates by CBO of those parts of the Congressional budget resolution not based on CBO estimating techniques. These re-estimates do not reflect new information received by CBO in conjunction with the Administration's Mid-Session Review; that information is currently being evaluated by CBO.
2. Reflects a preliminary CBO forecast made in July and subject to revision and updating for subsequent data.
3. The deficit range for 1982 reflects CBO's assessment of data available through mid-June on actual receipts and outlays for the year to date.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981 Highs	1982 Feb. Highs	1982 FOMC July 1	1982 Aug. 17	Change from: Feb. Highs	Change from: FOMC July 1
Short-term rates						
Federal funds[2]	20.06	15.61	14.81	10.28p	-5.33	-4.53
Treasury bills						
3-month	17.01	14.57	12.55	8.05	-6.52	-4.50
6-month	15.93	14.36	12.90	9.39	-4.97	-3.51
1-year	15.21	13.55	12.72	9.84	-3.71	-2.88
Commercial paper						
1-month	18.63	15.73	14.61	9.38	-6.35	-5.23
3-month	18.29	15.61	14.61	9.88	-5.73	-4.73
Large negotiable CDs[3]						
1-month	18.90	15.94	14.87	9.87	-6.07	-5.00
3-month	19.01	16.14	15.16	10.16	-5.98	-5.00
6-month	18.50	16.18	15.29	11.00	-5.18	-4.29
Eurodollar deposits[2]						
1-month	19.80	16.36	15.66	10.80	-5.56	-4.86
3-month	19.56	16.53	16.28	11.58	-4.95	-4.70
Bank prime rate	21.50	17.00	16.50	14.50	-2.50	-2.00
Treasury bill futures						
Sept. 1982 contract	14.46	14.18	12.84	9.40	-4.78	-3.44
Mar. 1983 contract	14.20	14.02	13.03	11.20	-2.82	-1.83
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	15.16	14.68	12.21	-2.95	-2.47
10-year	15.84	14.95	14.40	12.65	-2.30	-1.75
30-year	15.20	14.80	13.90	12.42	-2.38	-1.48
Municipal (Bond Buyer)	13.30	13.44	12.58	11.86[4]	-1.58	-.72
Corporate--Aaa utility Recently offered	17.72	16.34	16.00e	14.50p	-1.84	-1.50
S&L fixed-rate mortgage commitment	18.63	17.66	16.73[5]	16.44[5]	-1.22	-.29

	1981 Highs	1982 FOMC July 1	1982 Aug. 17	Percent change from: 1981 Highs	Percent change from: FOMC July 1
Stock Prices					
Dow-Jones Industrial	1,024.05	803.27	831.24	-19.8	+3.5
NYSE Composite	79.14	62.51	62.41	-21.1	-.2
AMEX Composite	380.36	249.40	244.30	-35.8	-2.0
NASDAQ (OTC)	223.47	170.60	162.28	-27.4	-4.9

1. One-day quotes except as noted.
. Averages for statement week closest to date shown.
. Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated.

M1 was unchanged during July, and moved within the upper bound of its 1982 growth range for the first time. Although M2 and M3 continued to exceed targeted levels, the weakness in transactions deposits resulted in a substantial decline in adjustment borrowing at the discount window. The System gave further impetus to an easing of money market conditions through three one-half percentage point cuts in the discount rate.

Federal funds, which generally traded in the neighborhood of 14-3/4 percent at the time of the last FOMC meeting, most recently have been in the 10 percent area. Other short-term market rates have declined 3 to 5 percentage points during the intermeeting period, reaching the lowest levels since the summer of 1980. Taxable long-term bond rates have fallen about 1-1/2 percentage points; about one-third of the decline occurred on August 17. The term structure of rates has assumed an extraordinarily sharp upward slope in the maturity range under two years, evidencing market expectations that security yields will be rising considerably in the months ahead.

One reason for this bearish outlook is the trajectory of the federal budget. Treasury borrowing expanded sharply in July and early August in order to help finance a record deficit for the third quarter and to build up cash in anticipation of another massive fourth-quarter shortfall. State and local governments, meanwhile, have continued to borrow heavily, mainly in the form of revenue bonds. Nonfinancial business firms appear to have continued raising funds in roughly the same volume as in the first half of the year, with high bond rates remaining a deterrent to long-term financing. Residential mortgage commitment and lending activity has remained quite

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

	1981	1982					QIV. '81 to
	Q4	Q1	Q2	May	June	July	July '82
	--Percentage change at annual rates--						
Money stock measures							
1. M1	5.7	10.4	3.3	-2.4	-0.3	0.0	5.0
2. (M1)[2]	5.5	9.5	3.6	0.8	2.7	-3.7	4.7
3. M2	8.9	9.8	9.5	10.7	6.6	9.3	9.6
4. M3	9.3	8.7	10.7	10.9	9.0	12.5	10.3
Selected components							
5. Currency	4.3	7.9	9.3	10.5	9.4	3.7	8.2
6. Demand deposits	-0.2	-0.5	-5.8	-2.1	-8.3	-2.1	-3.4
7. Other checkable deposits	27.6	49.5	19.6	-21.7	6.9	-1.4	26.2
8. M2 minus M1 (9+10+11+14)	9.9	9.5	11.5	14.9	8.7	12.2	11.0
9. Overnight RPs and Eurodollars, NSA[3]	-44.1	63.6	-8.4	71.3	8.4	8.4	25.5
10. General purpose and broker/dealer money market mutual fund shares,NSA	74.2	33.8	20.9	17.8	31.4	19.2	27.8
11. Commercial banks	10.3	9.4	17.2	14.2	9.9	13.9	13.5
12. savings deposits	-11.9	8.7	2.0	-1.5	-4.5	-21.8	0.8
13. small time deposits	20.8	9.7	23.8	20.8	15.8	28.5	19.1
14. Thrift institutions	1.5	1.6	6.0	10.9	2.4	10.0	4.8
15. savings deposits	-11.7	10.2	0.6	3.2	-3.2	-19.0	1.5
16. small time deposits	6.6	-1.5	8.1	13.9	4.5	20.7	6.1
1 minus M2 (18+21+22)	11.2	3.3	16.6	12.1	20.8	28.5	13.6
1 . Large time deposits	3.5	8.9	19.0	16.3	25.8	26.3	17.2
19. at commercial banks, net[4]	0.2	6.1	19.8	20.4	26.9	31.3	17.4
20. at thrift institutions	19.5	21.6	15.5	-4.1	20.5	4.0	16.4
21. Institutions-only money market mutual fund shares, NSA	132.8	-2.5	15.2	49.5	32.9	106.8	23.7
22. Term RPs, NSA	0.0	-29.9	3.7	-66.7	-48.3	-50.3	-22.0
	--Average monthly change in billions of dollars--						
MEMORANDA:							
23. Managed liabilities at commercial banks[4] (24+25)	0.2	0.4	6.3	4.6	10.9	6.4	3.7
24. Large time deposits, gross[5]	-0.2	2.7	5.8	6.7	8.3	10.7	4.5
25. Nondeposit funds[5]	0.4	-2.3	0.5	-1.3	2.6	-4.3	-0.8
26. Net due to related foreign institutions, NSA[5]	-2.3	-2.3	0.4	-1.3	1.8	-4.6	-1.4
27. Other[5,6]	2.7	0.0	0.1	0.0	0.8	0.3	0.6
28. U.S. government deposits at commercial banks[7]	0.8	1.9	-2.5	1.7	-5.4	-1.4	-0.4

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. M1 seasonally adjusted using alternative model based procedure applied to weekly data.
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. Excludes retail RPs, which are in the small time deposit components.
4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
5. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.
6. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities under agreements to repurchase and other liabilities for borrowed money (including borrowings from the 1 Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. are partially estimated.
7. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

weak, while consumer installment credit has continued a pattern of slow growth.

Although the shocks of recent business and financial institution failures appear not to have significantly disrupted credit flows on a macro level, financial markets have been marked by a considerable unease and volatility. Lenders have exhibited some heightened quality consciousness, and risk premiums have increased in several sectors--most dramatically in the commercial paper market, where the rate spread between medium- and highest-quality paper has become the widest since 1974. In contrast to 1974, however, there has not been a general closing of the commercial paper or bond markets to lower-rated borrowers, and on the whole non-price rationing by lenders has been limited to a fairly selective culling of questionable credits.

Monetary Aggregates and Bank Credit

During July, M1 was unchanged on a monthly average basis, after two months of slight decline.[1] Outflows from demand deposits slowed in July, but currency growth decelerated from the pace of previous months and OCDs declined slightly. The recent behavior of M1, given the sharp drop in short-term interest rates, suggests a continued unwinding of the bulge in M1 demand that occurred during late 1981 and early 1982.

Concurrent with the weakening in OCDs, there has been a renewed runoff in regular savings deposits. Passbook balances at all depository

1. The monetary aggregates table also includes an alternative seasonally adjusted M1 now being published on an experimental basis. This alternative measure, which exhibits somewhat smoother month-to-month changes, registered slower growth than the current M1 series in the first few months of 1982. Since April, however, the alternative measure has tended to grow more rapidly, despite a 3-3/4 percent rate of decline in July.

institutions fell at an annual rate of more than 20 percent in July, the first substantial outflow since last October. However, a sharp increase in small-denomination time deposits during July more than offset the weakness in savings balances and largely accounted for a pickup in the nontransactions component of M2. As a result, M2 growth accelerated to a 9-1/4 percent annual rate in July--just a shade below the pace of the first half.[1]

The surge in small time deposits was evident at both commercial banks and thrifts, but commercial banks gained a proportionately larger share, likely owing to their relatively better performance with 6-month MMCs. Concerns about the health of thrift institutions may have allowed banks to compete more favorably for these accounts, on which there is no rate differential. General purpose and broker/dealer MMMF shares picked up sharply towards the end of July and in early August, as their yields became attractive relative to more rapidly declining short-term market rates.

M3 growth accelerated to a 12-1/2 percent annual rate in July. In addition to more rapid expansion in its M2 component, this increase reflected continued heavy sales of large CDs and sharply larger inflows into institution-only MMMFs. In July, rate spreads favored increased use by banks of domestic CDs to fund assets booked at affiliated offices abroad. In addition, some institutions reported seeking CD funds as a precaution against

1. M2 velocity likely will fall again in the current quarter, marking the fourth consecutive quarterly decline. Substantial declines in M2 velocity of the sort seen in the past year have occurred earlier in the postwar era only during periods of reintermediation when interest rates fell below Regulation Q ceilings; however, the present composition of M2 suggests that this pattern may be much less important now. The emergence of high real rates and the prevailing economic uncertainties may have caused households to shift their portfolios toward financial assets in general, and especially toward the relatively safe short-term assets encompassed by M2.

possible liquidity problems in the wake of recent bank and security firm failures.

A bulge in risk premiums that developed on CDs relative to Treasury bills in late June and early July--around the time of the Penn Square failure--had largely disappeared prior to the Lombard-Wall bankruptcy announcements on August 12 when it widened again, but only briefly.[1] In recent weeks liquidity problems have not required an unusual amount of discount window use. Just a few of the thrift institutions that were uninsured depositors in Penn Square have borrowed, and only Abilene National Bank, which was merged with another bank on August 6 because of its own loan problems, has required quantitatively significant assistance. Adjustment plus seasonal borrowing has averaged about $400 million (daily average basis) thus far in August, versus $1.1 billion in the month of June.

Bank credit grew at a 6-1/2 percent annual rate in July, slightly faster than in June but below the pace of earlier months. The rise involved a moderate increase in holdings of U.S. Treasury securities at both large and small banks--with growth at large banks primarily in trading accounts--together with stepped up growth in consumer loans and the first expansion in security loans since March. The increase in consumer

1. However, some of the specific banks that had large loan losses associated with the Penn Square and Lombard-Wall failures reportedly still are facing resistance in selling short-term liabilities, most notably Continental Illinois and, more recently, Chase Manhattan. In recent weeks, secondary market quotes on Continental's CDs have ranged from 50 to as much as 170 basis points above CD rates paid by top tier banks. As alternatives to the CD market as a source of funds, Continental has tapped the Eurodollar and the federal funds markets, and has obtained money through its Edge Act subsidiary. Rates on Chase's CDs reportedly have been as much as 40 to 50 basis points above those of other top tier banks, in response to their heavy issuance of CDs and also to reports of their losses related to the Penn Square and Lombard-Wall problems.

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

	1981	1982					QIV '81 to
	Q4	Q1	Q2	May	June	July	July '82
				--Commercial Bank Credit--			
1. Total loans and investments at banks[2,3]	6.4	10.1	7.9	9.0	5.1	6.4	8.7
2. Investments	4.8	5.7	4.7	2.1	1.7	2.4	4.7
3. Treasury securities	-7.8	11.5	4.9	-3.1	-5.2	7.3	6.7
4. Other securities	11.2	2.8	4.8	4.6	5.1	0.0	3.7
5. Total loans[2,3]	6.9	11.5	9.0	11.3	6.4	7.6	10.0
6. Business loans[2,3]	9.2	16.8	14.9	19.1	14.5	9.6	15.0
7. Security loans	58.6	-18.3	-26.8	-17.2	-64.1	92.3	1.4
8. Real estate loans	7.3	7.8	6.6	6.5	7.3	.8	6.8
9. Consumer loans	4.1	2.8	3.0	3.2	2.6	5.7	3.7
				--Short- and Intermediate-Term Business Credit--			
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	13.8	15.2	13.1	18.5	10.6	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	9.3	16.5	15.8	19.9	18.0	11.0	15.5
12. Commercial paper issued by nonfinancial firms[5]	21.3	30.0	16.8	33.1	2.0	38.2	27.7
13. Sum of line 11 & 12	10.8	18.2	15.9	21.7	15.9	14.9	17.0
14. Line 13 plus loans at foreign branches[6]	14.0	18.5	15.7	23.1	13.6	14.9	17.4
15. Finance company loans to business	7.6	1.0	1.5	-1.5	10.5	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	20.9	11.7	10.2	11.7	-6.6	n.a.	n.a.

1. Average of Wednesdays for domestically 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. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.
4. Growth of bank credit from the FOMC's December-January base through July 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.8 percent. Adjusted for such shifts after January, growth over this period was 8.6 percent.
5. Average of Wednesdays.
6. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
7. Based on average of current and preceding ends of month.
n.a.--not available.

loans was the largest since last December. In contrast, real estate loans showed almost no growth, and the pace of business lending slowed.

Business Finance

Nonfinancial firms continued to raise a substantial amount of funds in credit markets during July, with the monthly pace probably approximating the average for the first half of the year. Most borrowing continued to be concentrated in shorter maturities, but--as open market yields fell sharply below the bank prime rate--there was a shift away from domestic banking offices toward commercial paper and to a lesser degree foreign branches. The prime rate has fallen from 16-1/2 to 14 percent; even so, it remains at a large spread over commercial paper and CD rates.

Corporate bond issuance picked up somewhat in July; there are indications of another spurt currently in response to the recent market rally. Public offerings reached almost $3 billion in July, on a seasonally adjusted basis. Most of this volume comprised issues by industrial and financial concerns, and $1.1 billion of it was in the form of extendable notes.[1] Much of the conventional longer maturity bond financing was undertaken by electric utilities. Although the monthly volume of Eurobond offerings by U.S. corporations in June and July was substantially less than during earlier months in 1982, the pace of such financings appears to have quickened in recent weeks.

Stock prices declined in July and early August, but a large portion of this drop was offset by the spectacular August 17 market rally. Despite

1. The interest rate on an extendable note is reset periodically--most commonly every 1 to 3 years--and investors have a put option on those occasions. If the maturities of such notes are categorized by the length of the extension intervals, then about two-thirds of public bond issues in July had maturities of less than five years.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly totals or monthly averages, millions of dollars)

	1981	1982			
	Year	Q1	Q2	June p	July p
	Seasonally adjusted				
Corporate securities--total	6,347	6,135	5,998	2,702	5,594
Securities sold in U.S.	5,833	4,723	4,621	2,509	5,295
Publicly offered bonds	3,138	2,088	2,062	778	2,954
Privately placed bonds	582	725	333	514	644
Stocks	2,113	1,910	2,226	1,217	1,697
Securities sold abroad[1]	514	1,412	1,377	193	299
	Domestic offerings, not seasonally adjusted				
Publicly offered bonds--total[2]	3,138	1,873	2,463	1,500	3,300
By industry					
Utility	1,079	693	935	790	750
Industrial	1,192	464	587	310	1,450
Financial	867	716	941	400	1,100
By quality[3]					
Aaa and Aa	1,182	528	932	505	1,500
A and Baa	1,448	928	1,086	535	1,300
Less than Baa	226	228	196	260	135
No rating	282	189	249	200	365
Memo items:					
Convertible bonds	357	48	169	150	60
Original discount bonds					
Par value	808	910	1,129	121	300
Gross proceeds	358	297	394	99	103
Stocks--total	2,113	1,865	2,105	1,500	1,500
By industry					
Utility	675	642	972	330	500
Industrial	1,053	985	577	940	450
Financial	385	238	556	230	550

p--preliminary.
1. Notes and bonds, not seasonally adjusted.
2. Total reflects gross proceeds rather than par value of original discount bonds.
3. Bonds categorized according to Moody's bond ratings.

July's lower share prices, stock issuance rose last month on a seasonally adjusted basis, mainly because of increased offerings by utilities and financial concerns. Banks in particular have been making a considerable effort to raise primary capital over recent months, and two large issues of preferred bank stock accounted for a substantial share of the financial stock offerings.

New stock issues related to the retirement of outstanding bonds--transactions that reduce debt-equity ratios and that are known as debt-equity swaps--averaged just under $300 million per month during the first half of the year. Most of these transactions were undertaken by industrial firms. Preliminary data for July indicate a considerable slowing in such transactions, which became less attractive because of the rise in bond prices and the general decline in stock prices then. Some other companies have removed debt from their balance sheets by "defeasance"--effectively offsetting the liabilities with binding commitments of cash or other assets. Both of these methods permit firms to boost current reported earnings by realizing a capital gain on their outstanding deeply discounted debt, but the transactions produce a smaller tax liability than would be incurred by a straight liquidation of debt.

Quality rate spreads on corporate security yields have exhibited mixed movements against a backdrop of numerous dividend reductions and omissions, adverse rating actions, and business failures. The rate spread between high- and medium-quality commercial paper has widened substantially since the last FOMC meeting, reaching 163 basis points, but the quality spread in corporate bond yields has not widened and lower-rated issuers still appear to have access to the primary market.

TREASURY AND AGENCY FINANCING[1]
(Total for period; billions of dollars)

	1982				
	Q2	Q3 e	June	July e	Aug. f
Treasury financing					
Combined surplus/deficit(-)	-8.2	-44.6	4.5	-20.7	-17.5
Means of financing deficit:					
(1) Net cash borrowing from the public	8.9	48.6	3.2	14.5	21.2
Marketable borrowings/ repayments(-)	11.0	50.5	4.2	15.4	21.7
Bills	-.4	24.0	-.3	6.2	11.4
Coupons	11.4	26.5	4.5	9.2	10.3
Nonmarketable	-2.1	-1.9	-1.0	-.9	-.5
(2) Decrease in the cash balance	2.0	-6.3	-3.1	.6	.7
Memo: Cash balance at end of period	11.0	17.3	11.0	10.4	9.7
(3) Other[2]	-2.7	2.3	-4.6	5.6	-4.4
Federally sponsored credit agencies net cash borrowing[3]	9.1	6.4	2.9	4.1	-.2
FHLB	3.0	1.8	1.1	.6	.3
FNMA	3.4	2.6	.7	2.9	-1.0
Farm Credit Banks	2.1	1.7	1.2	.6	.4
Other	.6	.3	-.1	--	.1

e--estimated.
f--forecast.
1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, the Federal Farm Credit Bank System, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

Government Finance

Federal Sector. The staff estimates the combined federal budget deficit at \$44.6 billion in the current quarter, a record amount for a third quarter. The Treasury intends to borrow about \$50.5 billion in the market during this quarter in order to fund the deficit and to build up its cash balance in anticipation of another large deficit in the fourth quarter. The staff expects the Treasury to borrow still more heavily in the market during the October-December period; action on the debt ceiling will be required since the temporary increase in the ceiling to \$1.1 trillion, enacted late in June, will expire on September 30.

Thus far this quarter, the Treasury has raised \$32.6 billion through marketable borrowing. The Treasury has had to rely on sales of bills and notes because the Congress has not yet raised the statutory limit on bonds with coupons exceeding 4-1/4 percent.[1] The Treasury has raised about \$10.4 billion by enlarging its regular bill auctions, \$4.5 billion through the sale of cash management bills that will mature in September, and \$17.7 billion in note auctions including the mid-quarter refunding.[2]

Primary dealers have provided strong support to the market since mid-year, as their overall positions in Treasury securities have registered a

1. Legislation to raise the limit from \$70 billion to \$110 billion is attached to the tax bill, now moving toward final consideration in both the House and the Senate.
2. Treasury Investment Growth Receipts (TIGRs)--a novel instrument introduced by Merrill Lynch--could enhance the demand for long-term Treasury securities. The new certificates represent participation in a trust of \$500 million of 14 percent 30-year Treasury bonds due in 2011; they combine the features of zero-coupon bonds with the credit quality of U.S. Treasury securities. The TIGRs will be sold in two forms--serial issues corresponding to the coupon interest on the Treasury bonds through 2006, and a 30-year callable issue corresponding to the last 10 interest payments and the principal of the Treasury bonds.

$9.7 billion swing, from a small net short to a large net long (including cash, futures, and forwards) through August 16. The Lombard-Wall failure has heightened concerns about the RP market; besides highlighting again the need for attention to credit risks, it has also brought to the fore long-standing questions about the legal aspects of the RP contract. Market reports suggest that the tiering that emerged in the RP market after the Drysdale failure has persisted, and that firms without strong capital positions are finding themselves cut from the lists of former RP creditors.

Borrowing by federally sponsored credit agencies totaled $9 billion in the second quarter, and about $4 billion is estimated for July. FNMA borrowing picked up to $2.9 billion in July in order to finance large net purchases of mortgages and to build liquidity. In contrast, FHLBank borrowing fell off to $600 million as an increase in deposit flows at thrifts reduced their demands for advances.

State and Local Sector. Yields in the municipal bond market generally have moved down about three-quarters of a percentage point since the last FOMC meeting. Yields on revenue bonds have declined by less than those on general obligation bonds, perhaps owing to the unusually large quantity of revenue bonds sold last month. As a result, the spread between yields on such bonds and on general obligations widened to about 100 basis points in July, compared with 65 to 80 basis points during most of the first half of the year.

Although the total volume of state and local government borrowing in July receded from the record second-quarter pace, gross issuance of tax-exempt bonds was $5.6 billion (seasonally adjusted), up slightly from the second-quarter volume, with revenue securities accounting for an unusually large 80 percent of the total volume. Mortgage revenue bonds--proceeds from which are primarily intended to finance single-family housing--totaled about $2.5 billion in July, the largest monthly volume since December 1980.[1]

STATE & LOCAL GOVERNMENT SECURITY OFFERINGS
(Monthly totals or monthly averages, billions of dollars)

	1981	1982			
	Year	Q1	Q2	July[e]	August[f]
		Seasonally adjusted			
Total	6.80	8.45	9.35	8.70	9.40
Long-term	4.00	5.25	5.20	5.60	5.40
Short-term	2.80	3.20	4.15	3.10	4.00
		Not seasonally adjusted			
Total	6.80	7.05	10.15	8.40	9.00
Long-term	4.00	4.40	5.90	5.40	5.20
Mortgage revenue bonds	.60	.30	.95	2.35	2.00
Short-term	2.80	2.65	4.25	3.00	3.80

e--estimate. f--forecast.

Demand for long-term municipal bonds by institutional investors has remained relatively weak. Individuals have been the major purchasers of new municipal bonds, partly through investments in shares of unit investment trusts (UITs), and of municipal notes through tax-exempt money market funds. Sales of UITs in July were at a record $1.1 billion, and UIT assets have increased 25 percent thus far in 1982 to about $31 billion at the end of

1. Issuance of mortgage bonds likely was stimulated in part by falling interest rates which increase the attractiveness of mortgages provided through these programs. In addition, volume probably was boosted by a Treasury ruling that in effect increased the arbitrage income bond issuers can earn, as well as by an IRS announcement that removed the uncertainty about the maximum amount of such bonds that can be issued in each state this year under existing law.

last month. Tax-exempt money market funds have grown even more rapidly during 1982 to about $9 billion in assets--almost double the end-of-1981 total. These funds have absorbed a major share of the growing volume of tax-exempt commercial paper (currently about $1.7 billion outstanding).

Mortgage Markets

Interest rates in the primary and secondary mortgage market have fallen since early July to the lowest levels of the year. In the primary market for long-term loans, the average contract rate on new commitments at S&Ls for 80 percent, fixed-rate level-payment conventional home mortgages has declined more than 40 basis points, to 16.44 percent. As discounts dwindled on mortgages underwritten by the federal government, the administration reduced rate ceilings on standard FHA and VA home mortgages by one-half percentage point to 15 percent, effective August 9.

With nontraditional financing techniques still prevalent in the primary market, interest rates paid at closing by many homebuyers appear to have remained substantially below rates quoted on new commitments for conventional fixed-rate mortgages.[1] At major institutional lenders, the contract rate on all types of conventional first home mortgages closed in early July averaged 15 percent, more than 180 basis points below the average rate then prevailing on new commitments at S&Ls for conventional fixed-rate home mortgages.[2]

1. Many home sellers have continued to provide financing at concessionary rates, likely in return for a premium incorporated in home sale prices. The latest (April) survey by the National Association of Realtors estimated that 70 percent of sales of existing homes involved one or more creative financing techniques, with interest rates on loan assumptions, "buydowns," and seller "takebacks" typically 3 to 4 percentage points below the market.
2. This differential continues to reflect inclusion in the average closing rate of below-market-rate loans such as those with "blended" rates and loans financed with mortgage revenue bonds. Moreover, the closing rate itself (continued on page III-15)

Mortgage commitment and lending activity at depository institutions has remained weak. At commercial banks, growth of real estate loans slowed almost to a halt in July, and new mortgage commitments made by savings and loan associations during June edged up only slightly. Growth in S&L holdings of mortgage loans and mortgage-backed securities in June remained at less than one-third the average monthly increase during the first quarter.

Both FNMA and FHLMC continue to expand existing programs and to introduce new arrangements to accommodate innovations in the primary mortgage markets. FNMA recently announced that, beginning September 1, FHA and VA mortgages will be eligible for its swap program, which allows an institution to exchange existing mortgages--typically bearing low rates--for more liquid mortgage-backed securities guaranteed by the agency. FNMA also has begun to issue commitments to purchase graduated-equity home mortgages (GEMs) for its own portfolio and has announced plans to issue and guarantee securities backed by GEMs, beginning September 1.[1] FHLMC has inaugurated a program to issue and guarantee GEM participation certificates, with Merrill Lynch and Salomon Brothers cooperating in the origination of the mortgages and the sale of the certificates. FNMA and FHLMC expect the shorter maturity and more rapid cash flow of GEMs to attract investors who wish to avoid very long-term investments in an environment of volatile interest rates.

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somewhat overstates the average rate paid by borrowers to the extent that it incorporates the full contract rate on "buydowns," including the portion of the contract rate paid by the home seller as well as that part paid by the borrower.

1. GEMs are fixed-rate mortgages involving scheduled gradual increases in monthly payments, with increases applied entirely to reduction of principal. Compared with an otherwise equivalent 25- to 30-year conventional fixed-rate loan, a GEM loan substantially reduces the total interest cost to the homeowner and enables homebuyers to own their homes outright sooner.

CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted annual rates)

	1980	1981	1982 Q1	1982 Q2	1982 May	1982 June
	- - - - Percent rate of growth - - - - - -					
Change in outstandings -- total	0.5	6.4	1.8	4.8	5.1	4.9
By type:						
Automobile credit	0.4	8.2	-0.7	5.8	9.1	6.2
Revolving credit	2.5	8.1	-0.3	10.4	10.8	10.1
All other	-0.3	4.1	4.9	1.5	-0.8	1.6
	- - - - - Billions of dollars - - - - - -					
Change in outstandings -- total	1.4	19.9	6.0	15.7	16.8	16.2
By type:						
Automobile credit	0.5	9.6	-0.8	7.4	11.5	7.9
Revolving credit	1.4	4.7	-0.2	6.2	6.4	6.1
All other	-0.4	5.6	7.0	2.1	-1.1	2.2
By major holder:						
Commercial banks	-7.2	2.3	0.0	-0.1	-0.2	-1.2
Finance companies	8.4	13.1	1.5	10.2	13.5	10.5
All other	0.2	4.5	4.5	5.6	3.4	6.9
Extensions -- total	306.1	336.3	326.0	350.5	350.4	356.8
By type:						
Automobile credit	83.5	94.4	87.8	97.9	101.2	98.2
Revolving credit	128.1	140.1	139.8	153.2	150.3	160.3
All other	94.5	101.8	98.4	99.3	98.9	98.3
Liquidations -- total	304.6	316.5	320.0	334.8	333.6	340.7
Memo:						
Ratio of liquidations to disposable income (percent)	16.7	15.7	15.1	15.6	15.5	15.8
Ratio of extensions to total retail sales (percent)	32.3	32.7	31.3	32.7	32.2	33.3

Consumer Credit

Consumer installment credit outstanding expanded in June at about the same 5 percent seasonally adjusted annual rate as in May. For the full second quarter, consumer credit grew at a 4-3/4 percent rate, up from 1-3/4 percent in the first quarter. Indications of a rebound in credit growth at banks suggest that the moderate overall advance continued into July despite the likelihood of weaker expansion at auto finance companies and retail stores.

The revolving credit component advanced at a 10 percent rate in June, the third consecutive month of expansion at that pace. Stepped-up increases of such credit at commercial banks and retailers since February have outweighed sluggishness in gasoline-card credit that has reflected recent actions taken by several gasoline companies to discourage or preclude the use of gasoline credit cards.

Delinquency rates on consumer installment loans at commercial banks dropped during the second quarter to their lowest level in nine years. A steady decline in this series since the third quarter of 1980 has been interrupted only briefly by a small rise in the fourth quarter of 1981. Delinquencies usually climb during a recession, but this pattern has not been repeated in 1981-82, in large part because banks did not relax their tightened credit standards following the 1980 recession. Similarly, the delinquency rate on auto loans at major finance companies fell in the second quarter to its lowest level since the series was begun in 1966. Personal bankruptcies also declined fairly sharply in the second quarter, when the number of cases filed was 7 percent below the peak first-quarter total.

Foreign Exchange Markets

As shown in the upper panel of the chart on the next page, the weighted average value of the dollar has shown substantial variability during the last several weeks but has remained almost unchanged on balance since the last FOMC meeting. While the direction of exchange rate changes closely paralleled interest rate movements on a daily basis, overall there has been a substantial relative decline in dollar interest rates. The strength of the dollar in spite of declining interest rate differentials apparently reflected its attractiveness as a safe haven currency in the face of market anxieties over the bankruptcy of Banco Ambrosiano in Italy and the insolvency of the German firm AEG Telefunken, as well as the Mexican financial crisis.

As shown in the lower panel of the chart, the differential between rates on U.S. CD's and average foreign interbank rates declined by about 500 basis points and turned negative for the first time since November 1981. Eurodollar interest rates on maturities up to 1 year fell by 2-1/2 to 4 percentage points during July, and have fallen an additional 1-1/2 to 2 percentage points following the recent discount rate cut. Several countries, in particular the United Kingdom, Switzerland, Canada, Belgium, and France, have experienced declines in short term rates of 1 to 2 percentage points during the last six weeks, while no interest rate changes have occurred in Japan and Germany.

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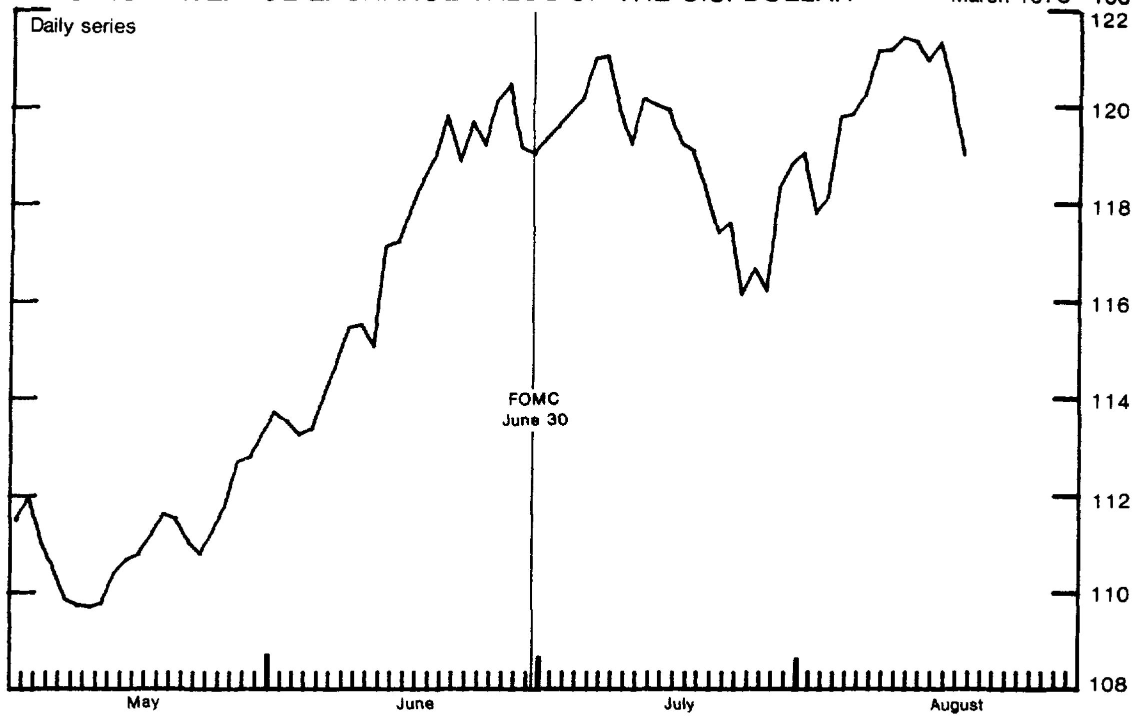
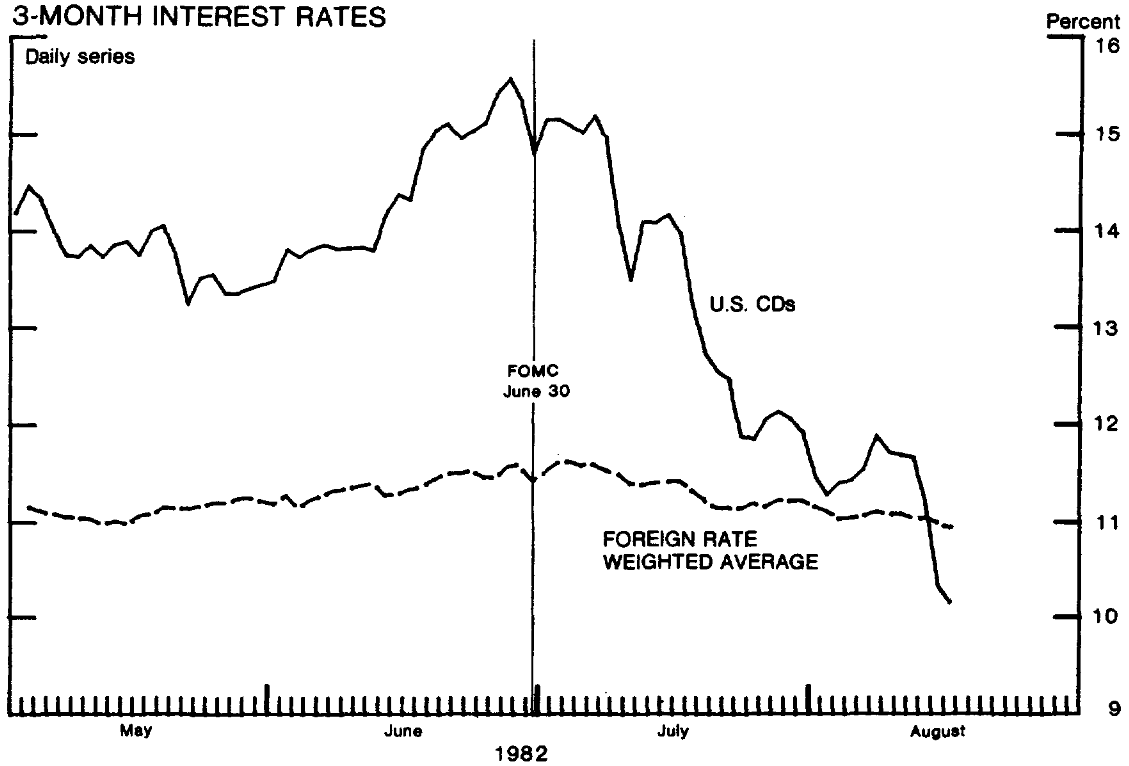
8/18/82

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



3-MONTH INTEREST RATES



. The Desk intervened on one occasion, purchasing $6 million equivalent of yen and $5 million equivalent of marks.

In early August, the Mexican government substantially raised administered prices on certain foods and gasoline, and this was quickly followed by labor union demands for increased wages. Conversions from dollars to pesos accelerated and the Bank of Mexico found it increasingly difficult to support the prevailing level of the peso.

. On August 5 the Mexican central bank announced a new two-tier exchange rate system for the peso. A preferential rate was established for most food and other "priority" imports, and some private debt servicing. The preferential rate was set at 49 pesos per dollar (the previous market rate) and is expected to be depreciated gradually. The free market peso fell sharply following the announcement, with prohibitive bid/asked spreads and virtually no trading for several days. The establishment of the two-tier exchange rate system failed to stop the drain on Mexico's foreign exchange reserves, as rumors that controls would soon be instituted were widespread, causing liquidation of dollar balances at Mexican banks. Consequently, the Mexican authorities announced on August 12 that foreign exchange markets in Mexico were being closed, that banks were prohibited from transferring Mexican dollar accounts out of the country, and that withdrawals from Mexican dollar accounts could only be taken in pesos. In U.S. markets, the peso is trading at about 85 per dollar, representing a 40 percent depreciation during August and 70 percent since the beginning of 1982. Since formal exchange markets remain closed in Mexico, street trading has reportedly taken place in excess of 100 pesos per dollar. On August 17 the Mexican Finance Minister announced that $3.5 billion of foreign credits had been obtained or were in advanced stages of finalizing, including $1 billion from advance oil sales to the United States, $1.5 billion from western central banks, and $1 billion from the Commodity Credit Corporation.

U.S. International Transactions

U.S. Merchandise Trade. In June the U.S. merchandise trade deficit was marginally greater than in May but the deficit for the second quarter as a whole ($20 billion at annual rate) was slightly smaller than in the first quarter. Exports in the second quarter were about unchanged from low first quarter levels and imports declined somewhat.

The value of agricultural exports increased slightly in the second quarter, with the volume of shipments up by 4 percent (primarily corn and soybeans) while the average export prices of most major commodities continued to decline in response to large supplies and moderate demand.

U.S. Merchandise Trade*

	1 9 8 1			1 9 8 2			
	Year	Q3	Q4	Q1	Q2	May	June
Value (Bil. $, SAAR)							
Exports	236.3	230.8	230.4	222.4	222.5	228.8	229.1
Agricultural	44.3	39.8	42.4	42.0	42.4	43.8	41.6
Nonagricultural	192.0	191.0	188.0	180.4	180.1	185.0	187.4
Imports	264.1	262.2	267.1	246.7	242.9	254.7	259.2
Petroleum	77.6	72.6	72.4	62.6	53.7	50.4	61.4
Nonpetroleum	186.5	189.5	194.7	184.1	189.3	204.3	197.7
Trade Balance	-27.9	-31.4	-36.7	-24.2	-20.5	-26.0	-30.1
Volume (Bil, 72$, SAAR)							
Exports - Agric.	18.1	16.7	18.6	18.5	19.2	19.9	18.9
- Nonagric.	70.5	69.3	66.6	62.6	63.0	64.4	66.2
Imports - Petroleum	5.9	5.7	5.8	5.0	4.5	4.3	5.1
- Nonpetrol.	72.1	73.9	76.3	69.8	72.5	78.2	76.8

*/ International Transactions and GNP basis. Monthly data are estimated.

Nonagricultural exports were little changed in value or volume between the first and second quarters. In response to weak foreign demand, lower primary commodity prices, and the decreasing competitiveness of U.S. goods as the dollar appreciated, various categories of exports declined (civilian aircraft, metallurgical coal, construction machinery) or continued at low first-quarter levels (other industrial materials,particularly metals, paper, textiles). However, several items increased strongly in the second quarter, particularly computers and parts, and electrical/electronic machinery and parts.

The decline in imports in the second quarter was primarily the result of a drop in oil imports. The volume of oil imports dropped 10 percent from first quarter rates to the lowest level since the second quarter of 1972 as U.S. demand slackened and as domestic stocks were drawn down from high levels. The average oil import price declined about $1.65 per barrel to average $30.53 per barrel. Spot prices for both crude and products slipped to about $3 per barrel below official prices of most OPEC countries. OPEC failed to agree on a new pricing and output structure at its meeting on July 9-10.

Despite the sluggishness of U.S. economic activity, nonoil imports turned up in the second quarter. Volume increases were particularly

	1981			1982		1982		
Oil Imports	2Q	3Q	4Q	1Q	2Q	Apr.	May	June
Volume (mbd, SA)	6.52	5.90	5.99	5.33	4.82	4.35	4.55	5.38
Price ($/BBL)	35.62	33.27	32.42	32.17	30.53	30.56	29.98	30.94
Value (Bil. $, SAAR)	83.2	72.6	72.4	62.6	53.7	49.2	50.4	61.4

strong in foods and machinery (both from low first quarter rates). Automotive imports from Japan decreased slightly while imports from Germany and other countries rose somewhat from first quarter levels. Partly offsetting these changes were declines in imports of consumer goods and of industrial supplies (particularly steel and steel making materials, other metals and natural gas). While total steel imports decreased somewhat in the second quarter,it appears that imports from Common Market countries rose while imports from Japan and other countries declined.

U.S. International Capital Transactions. U.S. banking offices (including IBFs) increased their net claims on their own foreign offices by $2 billion in July and by $5 billion in early August (monthly average basis, see line 1 (a) in the table below.) A sizable increase in Euro-

International Banking Data
(billions of dollars)

	1980	1981	1982				
	Dec.	Dec.	Mar.	May	June	July	Aug.4/
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices 1/							
(a) Total	6.5	9.2	11.0	12.3	16.6	14.6	9.6
(b) U.S.-Chartered Banks	-15.2	-8.9	-4.2	-0.7	2.8	1.7	-0.5
(c) Foreign-Chartered Banks	21.7	18.1	15.2	13.0	13.8	12.9	10.1
2. Credit Extended to U.S. Non-bank Residents by Foreign Branches of U.S. banks 2/							
(a) Total	4.2	13.2	13.8	14.9	14.2	14.4	15.7
(b) New York Banks Only	2.7	8.8	9.1	10.0	9.7	10.1	10.9
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	60.8	93.6	103.9	113.3	n.a.	n.a	. n.a.

1/ Average of Wednesdays, net due to own foreign office = (+).
2/ Daily averages.
3/ End of month.
4/ Through August 4.

dollar borrowing by one U.S. money center bank to offset runoffs of its domestic CDs was exceeded by net outflows from both U.S. and foreign-chartered banks. The surge in net advances may have been prompted by unusually high spreads between the cost of issuing domestic CDs and returns available on placements in the Eurodollar interbank markets. The functioning of the international interbank markets has been little affected by either the Banco Ambrosiano scandal or the rumors of sizeable loan losses for Canadian and German banks. In particular, U.S. regional banks, which in the aggregate are large net placers of funds in those markets, have not reduced advances to their foreign branches over the last two months.

The Eurodollar CD market also continued to function smoothly. At the end of July Continental Illinois was removed from the list of prime names in the secondary market for Eurodollar CDs, but reportedly no further tiering of rates paid by other U.S. issuers of Eurodollar CDs has developed. There has been no evidence that investors have run off Eurodollar CDs in a flight to quality. Yields on prime Eurodollar CDs have remained at a level of 30 to 60 basis points above prime domestic CDs. Money-market mutual funds, which hold about 40 percent of total Eurodollar CDs outstanding at London branches of U.S. banks, have not reduced their holdings of such obligations.

Loans to U.S. nonbank residents at foreign branches of U.S. banks have risen sharply over recent weeks as the LIBOR rate fell sharply relative to the prime rate -- see line 3 in the table above. These loans are concentrated at a small number of banks, mostly New York banks, that follow a practice of booking LIBOR-priced loans in the

Caribbean and booking prime-priced loans at the head office. As the customers of these banks exercise their options under credit arrangements to switch pricing formulas, the booking location is also shifted. During June, as the differential between the prime rate and the 3-month LIBOR narrowed by 200 basis points, branch loans fell. This decline has now been reversed as the differential between LIBOR and prime interest rates reopened.

Eurodollar holdings of U.S. nonbank residents continued to grow at a rapid pace between March and May (most recent data available). In the first five months of the year such holdings increased by $20 billion to a level of $113 billion. In the March-May period holdings of Eurodollar CDs issued by London Banking offices increased particularly rapidly, despite a cessation of the growth of holdings by money-market mutual funds.

Summary of U.S. International Transactions
(in billions of dollars)

	1981 Year	1981 Q-3	1981 Q-4	1982 Q-1	1982 Q-2	1982 Apr.	1982 May	1982 June
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.7	3.3	-19.9	-1.0	-13.9	-4.1	-5.1	-4.8
Securities								
2. Private securities transactions, net	1.4	.1	-2.5	.8	2.1	.7	1.5	-.2
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.6	.1	.6	1.7	.7	.8	.2
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	.1	.2	.7	.8	.2	.3	.3
c) U.S. net purchases (-) of foreign securities	-5.5	-.6	-2.9	-.5	-.4	-.1	.3	-.7
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	-.8	1.1	1.3	2.0	1.1	-.7	1.6
Official Capital								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	5.1	-5.5	8.1	-2.9	2.2	-1.2	1.5	2.0
a) By area								
G-10 countries and Switzerland	-10.8	-5.5	.9	-6.8	-4.6	-4.1	-1.0	.5
OPEC	12.7	2.5	1.9	5.0	2.7	1.5	.5	.6
All other countries	3.3	-2.5	5.4	-1.1	4.1	1.3	1.9	.9
b) By type								
U.S. Treasury securities	5.0	-4.6	4.4	-1.3	-2.1	-2.6	.1	.4
Other 2/	.1	-.9	3.7	-1.6	4.3	1.4	1.4	1.5
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-3.3	-.1	-.4	.1	-.7	-1.6	.6	.2
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	-1.0	-1.0	-1.1	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	4.5	9.3	1.0	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-13.9	-1.6	-3.3	-10.6	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	0.9	-0.9	1.2	n.a.	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	-0.4	9.5	11.2	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-7.8	-9.2	-6.1	-5.1	-0.4	-2.2	-2.5

1/ Includes U.S. Treasury notes publicly issued to private foreign residents.
2/ Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchase agreements.
3/ Includes newly allocated SDR's of $1.1 billion in January 1979; $1.2 billion in January 1980, and $1.1 billion in January 1981.
4/ Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, allocations of SDRs, and other banking and official transactions not shown elsewhere.
5/ Includes seasonal adjustment for quarterly data.
*/ Less than $50 million.

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

<u>Foreign Economic Developments</u>. There have been no clear signs in any foreign industrial economy that a recovery is underway. However in the United Kingdom, where industrial production (s.a.) increased .6 percent in the second quarter, but was negative in June, the slowdown in activity may have bottomed out. Industrial production (s.a.) fell in Italy, Germany and Japan in the second quarter of this year. In Canada, industrial production, though it rose in May, is still below its May 1977 level.

Although inflation abroad has eased substantially since last year, the progress has not been uniform. The first-half rate of increase in the CPI for the 10 foreign industrial countries was about 8.5 percent, compared with 10.5 percent for the first half of 1981. In Canada and France the rate of consumer price inflation in the second quarter was virtually unchanged from the high rates reached in the second quarter of last year. In the other major industrial countries there have been substantial declines.

The sluggish state of economic activity abroad has been reflected in an improvement in current-account positions in some of the major foreign industrial countries this year relative to 1981. In Japan, the current-account surplus (s.a.) for the first half of this year was \$3½ billion as compared with \$1 billion for the same period last year. The first-half surplus, however, was below many earlier forecasts. In Germany, the current account (s.a.) showed a small surplus in the second quarter. For the first half of this year the current-account deficit was \$0.4 billion as compared with \$6.7 billion for the same period last year. Weak domestic demand is the primary factor behind the sharp rise in Canada's trade surplus in the first half of this year. In France and the United Kingdom, however, both the trade and current-account positions showed some deterioration.

Individual Country Notes. In Japan, the authorities have continued to struggle with the effects of weak demand in both domestic and external sectors. Although industrial production in June recovered the ground lost in May's sharp drop, the average level for the second quarter was still 7½ percent (s.a.a.r.) below the first-quarter level. The mid-July assessment of the economy by the Japanese Economic Planning Agency (EPA) noted recent increases in inventories and deterioration of labor-market conditions as particularly troubling developments that may endanger a hoped-for recovery of domestic demand later this year. (In June, unemployment reached 2.5 percent (s.a.), its highest level in 16 years.) Stagnation in production and shipments of manufactured goods was attributed primarily to reduced export demand.

The authorities appear to be stymied in the use of conventional demand-management tools to stimulate domestic demand by concern over budget deficits and weakness of the yen. Recently released budget figures for the FY 1981 (which ended in March) revealed a revenue shortfall of some ¥3 trillion (about $11 billion equivalent); some of this shortfall has been financed by controversial stop-gap measures including sales of long-term government bonds from the Ministry of Finance debt consolidation fund directly to the Bank of Japan. Although the Bank of Japan has guided short-term interest rates upward in recent months (by a total of about 80 basis points) and recent declines in U.S. short rates have closed the short-term rate differential to about

3½ percentage points, the yen has failed to strengthen.

Price developments in Japan continue to be favorable. The CPI fell in July by a full percentage point, and in recent months consumer prices have been moving ahead at only slightly above a 2 percent annual rate. Wholesale-price inflation has been even more moderate at about 1 percent (a.r.).

The June trade surplus was virtually unchanged from that of May at about $1.7 billion (s.a.), but the current-account surplus widened in June by about $500 million to $1 billion. An important element in the June increase was improved net investment earnings that are related to recent long-term capital outflows from Japan. These capital outflows continued strongly in June as Japanese purchases of foreign securities and non-residents' sales of Japanese securities together produced a net outflow of almost $900 million.

Industrial production in Germany declined again in June, the third consecutive monthly decline. The second-quarter average of the index matches previous low points of the current recession. The rate of unemployment has continued to rise through July, when it reached 7.8 percent (s.a.). Recent survey data suggest that views on business conditions have once more taken a turn for the worse. Corporate insolvencies during the first half of this year were 50 percent higher than in the comparable period last year.

The rate of consumer-price inflation, which earlier this year had been slowing, has accelerated again in the summer months averaging over 7 percent (a.r.) for the June-July period.

The current account (s.a.) showed a small deficit in June, after small surpluses in the preceding three months. For the first half of this year, the cumulative deficit was only $0.6 billion compared to a deficit of $6.7 billion in the first half of last year.

The rate of growth of Central Bank Money continued in June near the upper limit of the Bundesbank's 4 to 7 percent target range.

This year's negotiations among the government coalition partners about the 1983 federal budget were concluded in July. The new budget provides for only 2 percent growth in real spending, compared with 5.5 percent in 1982, and new borrowing of DM28.5 billion, compared with DM34 billion in 1982. The budget contains large cuts in spending on social services such as unemployment benefits and pensions. Defense spending is budgeted to rise by 4.1 percent. The underlying assumption of 3 percent real GNP growth is considered optimistic by private forecasters.

In the United Kingdom, industrial production fell in June by 1½ percent (s.a.) after a ½ percent rise in May. The June industrial production level was the same as that recorded in June 1981. Real GDP growth has been positive but small in recent quarters, and the pace of recovery in U.K. economic activity has not been sufficient to lower the unemployment rate. In fact, the unemployment rate has continued to climb and stood at 12.3 percent (s.a.) in July -- 1.5 percentage points higher than a year earlier, and nearly twice the rate prevailing in July 1980.

Latest data indicate a further slowing of inflation in the United Kingdom. Between April and July, consumer prices increased only 4 percent (a.r.). The July consumer price index was 8½ percent higher than its year-earlier level.

In the first six months of this year, the U.K.'s trade account registered a surplus of $ 3/4 billion and the current-account surplus was some $2¼ billion. Both figures are down sharply from 1981 levels. Between the second quarters of 1981 and 1982, export volume rose about 5 percent while the volume of imports increased over 14 percent.

In mid-July, the London clearing banks lowered their base rate from 12½ to 12 percent and at the beginning of August the rates were reduced another ½ percentage point. On August 18, clearing banks lowered their base rates to 11 percent. Bank of England actions to lower short-term money market rates preceded the recent declines in the clearing banks' base rates.

French economic growth turned negative in the first quarter, after averaging nearly 3 percent (s.a.a.r.) in the previous three quarters. Growth in consumer expenditure remained strong at over 5 percent. Exports and residential investment were very weak, with expenditure declining by well over 10 percent in each case. Consumer-price inflation in the second quarter accelerated to 13 percent from 11.8 percent in the first quarter.

Although French economic policy had been slowly changing emphasis since the first of the year due to high inflation rates and external payments problems, the French did not formalize the change until the June devaluation of the franc. Prices and wages will be frozen until November and controlled for at least a year thereafter. Deficits in both the central government and social security budgets are to be reduced. Investment is to replace consumption as the key sector through which the economy will be stimulated. No changes were announced for monetary targets or credit controls.

Led by a sharp rise in exports, real GDP in Italy rose 1.4 percent (s.a.) during the first quarter of this year. However, part of this growth is believed to reflect inaccurate seasonal adjustment. Inflation has slowed down noticeably. In June, wholesale prices were about 12 percent above their year-earlier level, compared with a 17½ percent rise in the previous 12 months. Consumer-price inflation has registered a smaller decline: in the year ending in July, the CPI was 16¼ percent above its year earlier level, compared with a 19½ percent rise in the previous year.

On August 7 the Spadolini government fell as the Socialists withdrew from the coalition government. One of the last acts of the government was to present a package of indirect tax increases designed to reduce the 1982-83 budget deficits. The tax changes involved increases in various VAT rates, some production taxes, corporate tax rates and pension contributions. These tax increases are supposed to produce a government deficit of 60 trillion lire in 1982 (about 13 percent of GDP) and 63 trillion lire in 1983. These changes were made by decree laws, which are effective immediately and must be passed by the Parliament within 60 days (in this case, by September 30). The dissolution of the government will complicate the passage of these laws.

In Canada, industrial production (s.a.) rose almost 1 percent in May -- representing the first rise in this index in ten months. Unemployment has continued to climb to new post-depression highs. In July, the unemployment rate jumped almost 1 percentage point to 11.8 percent.

Consumer-price inflation, which has been in double digits since mid-1980, still remains high. CPI inflation on a year-over-year basis was 10.8 percent in July as compared with 11.2 percent in June.

In June, the Canadian trade balance (s.a.) posted a surplus of $1.6 billion. This brings the cumulative surplus for the first half to $6.6 billion, which is almost $1 billion more than the surplus for all of last year.

The Belgian government has recently announced preliminary plans for the 1983 budget. In an effort to reduce the government borrowing requirement next year to 10.5 percent of GNP, public spending will be curbed and indirect taxes will be raised. This year the borrowing requirement is expected to be over 11 percent. At the end of July the National Bank of Belgium announced a reduction in its discount rate of one-half percent to 13.5 percent. This change was in response to lower market rates of interest.

Mexico. The recent deterioration in Mexico's external financial position had its origins in policies implemented since 1978. At that time expansionary policies adopted to promote employment yielded a growth rate averaging over 8 percent in 1978-81, but led to large public sector deficits, accelerating inflation, and high import growth. A decline in Mexico's international competitiveness, weakness in the world oil market, a recession in the industrial countries, and an accelerated rise in interest payments on the growing external debt as world interest rates reached new highs, resulted in a current-account deficit of $12.9 billion in 1981, compared with $7.6 billion in 1980.

In February 1982, the peso was finally allowed to depreciate substantially following a drain on Mexico's reserves. However, no supporting stabilization program was adopted and, instead, steps were taken to cushion the impact of the devaluation, including a large across-the-board wage increase. In the face of a renewed drain on reserves, the Mexican authorities, on April 21, announced a program to reduce the public sector deficit, tighten monetary policy, and bring down the current-account deficit. The program was not vigorously implemented and skepticism mounted about its adequacy, as well as about the Government's ability and willingness to take further steps before a new President takes office in December. When the Mexican government raised administered prices on certain foods and gasoline early in August, fears of rising wage demands and of possible controls were aroused, and capital flight accelerated.

The peso was again allowed to depreciate substantially in August and a dual exchange rate system was instituted, with a preferential rate for certain imports and debt payments, financed primarily out of oil export earnings. The reserve drain continued, and transfers from foreign currency denominated accounts to banks outside the country were banned and such accounts were ordered paid only in pesos at the free market rate.

The growing concern of foreign banks over the outlook for Mexico is shown by the hardening of terms on Mexico's Eurocurrency borrowings since late last year and by a sharp reduction in the flow of new credits to Mexico since June. In June, a jumbo loan of $2.5 billion received a poor response from the market and the lead managers were able to sell down only about 15 percent of the loan. Some banks are reported to be refusing to roll over maturing obligations. Mexico's total external debt at mid-year was estimated at close to $80 billion, three-fourths of which is owed to foreign banks.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

		1979	1980	1981	1980 Q4	1981 Q1	1981 Q2	1981 Q3	1981 Q4	1982 Q1	1982 Q2	1982 MAR.	1982 APR.	1982 MAY	1982 JUN.
CANADA:	GNP	2.9	.5	3.1	1.9	1.2	1.6	-1.1	-.9	-2.0	N.A.	*	*	*	*
	IP	5.3	-2.0	1.3	2.2	1.0	2.6	-3.1	-4.6	-2.9	N.A.	-1.2	-1.4	1.0	N.A.
FRANCE:	GDP	3.7	1.1	.2	-.2	-.6	1.2	.2	.7	-.2	N.A.	*	*	*	*
	IP	4.5	-1.1	-2.3	-1.0	-1.5	.5	.3	1.5	-2.5	N.A.	.8	-.8	1.6	N.A.
GERMANY:	GNP	4.4	1.8	-.3	-.4	.5	-.5	.7	.1	-.2	N.A.	*	*	*	*
	IP	5.3	-.1	-2.1	-1.2	.9	-.3	.0	-1.2	1.3	-.6	1.9	-.9	-.9	-1.9
ITALY:	GDP	5.0	4.0	-.2	2.3	.8	-1.1	-1.7	2.6	1.4	N.A.	*	*	*	*
	IP	6.9	4.5	-2.5	3.6	-.7	1.5	-4.9	4.5	1.0	-1.4	-1.6	-.1	-.6	-4.2
JAPAN:	GNP	5.2	4.2	3.0	.7	.7	1.2	.7	-.7	.8	N.A.	*	*	*	*
	IP	8.3	7.1	3.0	1.6	1.7	-.3	1.6	2.6	-.9	-1.9	1.4	-1.9	-1.7	1.7
UNITED	GDP	1.7	-2.4	-2.2	-.9	-.4	-.4	.4	.5	.1	N.A.	*	*	*	*
KINGDOM:	IP	2.7	-6.6	-5.0	-2.4	-1.4	-.1	.9	.3	-.4	.6	.3	.5	.4	-1.5
UNITED	GNP	2.8	-.4	1.9	1.1	1.9	-.4	.5	-1.3	-1.3	.4	*	*	*	*
STATES:	IP	4.4	-3.6	2.6	4.5	2.0	.5	.3	-4.4	-3.1	-1.8	-.8	-1.1	-.7	-.7
														(JULY)	-.1

*GNP DATA ARE NOT PUBLISHED ON MONTHLY BASIS.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

		1981				1982		1982				MEMO: LATEST 3 MONTHS FROM YEAR AGO
		Q1	Q2	Q3	Q4	Q1	Q2	APR.	MAY	JUN.	JUL.	
CANADA:	CPI	3.2	3.1	3.0	2.5	2.5	3.1	.5	1.4	1.0	.5	11.3
	WPI	2.7	2.2	2.1	1.2	1.4	2.0	1.0	.4	.5	N.A.	6.9
FRANCE:	CPI	3.0	3.3	3.9	3.2	2.8	3.1	1.2	.8	.7	.3	13.1
	WPI	1.4	4.3	4.3	2.1	2.7	2.6	1.0	.1	.9	N.A.	12.3
GERMANY:	CPI	2.2	1.8	1.2	1.2	1.5	1.4	.5	.6	.9	.2	5.6
	WPI	3.9	2.3	2.1	1.8	1.8	1.3	.5	1.1	.6	N.A.	7.1
ITALY:	CPI	5.2	4.4	3.0	4.6	4.0	3.1	.8	1.1	1.1	1.5	15.7
	WPI	5.0	5.1	3.5	4.0	3.3	2.0	.9	.5	.3	N.A.	13.4
JAPAN:	CPI	1.1	1.5	.0	1.3	.5	1.0	.7	.1	.1	-.8	2.3
	WPI	-.7	1.1	1.4	-.1	.2	.2	.3	-.6	.2	.6	1.2
UNITED	CPI	2.4	4.9	1.7	2.5	1.7	3.2	2.0	.7	.3	.0	9.1
KINGDOM:	WPI	3.0	3.4	2.1	2.3	2.2	1.7	.6	.5	.4	.8	8.5
UNITED	CPI (SA)	2.6	1.9	2.8	1.9	.8	1.1	.2	1.0	1.0	N.A.	6.8
STATES:	WPI (SA)	2.5	2.3	1.1	1.2	.7	.1	-.1	.0	1.0	.6	3.4

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES#
(BILLIONS OF U.S. DOLLARS: SEASONALLY ADJUSTED)

		1980	1981	1981 Q1	1981 Q2	1981 Q3	1981 Q4	1982 Q1	1982 Q2	1982 APR.	1982 MAY	1982 JUN.
CANADA:	TRADE	6.7	5.7	1.4	.8	.6	2.8	2.9	3.7	1.0	1.2	1.6
	CURRENT ACCOUNT	-1.6	-5.2	-1.2	-1.8	-2.1	-.2	.2	N.A.	*	*	*
FRANCE:	TRADE+	-14.2	-10.7	-2.5	-1.9	-1.9	-3.1	-2.8	-4.3	-1.6	-.5	-2.1
	CURRENT ACCOUNT+	- 4.2	-4.8	-1.7	.3	-1.3	-2.1	-2.0	N.A.	*	*	*
GERMANY:	TRADE	4.9	11.9	.2	3.1	3.1	5.5	5.0	5.3	1.1	2.2	2.0
	CURRENT ACCOUNT (NSA)	-16.5	-7.6	-4.4	-2.3	-4.9	4.1	-.8	.4	.2	.4	-.2
ITALY:	TRADE	-22.3	-16.0	-4.6	-5.0	-4.0	-2.5	-6.0	-1.8	-.5	-1.2	-.2
	CURRENT ACCOUNT (NSA)	-8.4	-9.1	-5.8	-2.3	.3	-.9	N.A.	N.A.	*	*	*
JAPAN:	TRADE+	2.1	20.1	3.3	5.5	6.3	5.0	4.4	5.3	1.9	1.7	1.7
	CURRENT ACCOUNT	-10.7	4.6	-1.0	2.0	2.5	1.1	.9	2.5	1.0	.5	1.0
UNITED	TRADE	2.9	N.A.	3.9	2.4	N.A.	.9	.6	.1	.3	-.2	.0
KINGDOM:	CURRENT ACCOUNT+	7.4	N.A.	5.9	4.4	N.A.	2.6	1.3	.9	.6	.1	.3
UNITED	TRADE	-25.3	-27.9	-4.3	-6.5	-7.8	-9.2	-6.1	-5.1	-.4	-2.2	-2.5
STATES:	CURRENT ACCOUNT	1.5	4.5	3.2	1.4	.8	-.9	1.2	N.A.	*	*	*

THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES, AND PRIVATE AND OFFICIAL TRANSFERS.
+ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.
* COMPARABLE MONTHLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.