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August 15, 1984

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rates)		
Civilian labor force	July	08-03-84	113.9	.6	2.4	1.9
Unemployment rate (%) 1/	July	08-03-84	7.5	7.1	7.8	9.5
Insured unemployment rate (%) 1/	May	07-26-84	2.8	2.8	2.9	4.1
Nonfarm employment, payroll (mil.)	July	08-03-84	94.4	3.9	4.0	4.5
Manufacturing	July	08-03-84	19.7	6.4	4.4	6.6
Nonmanufacturing	July	08-03-84	74.6	3.2	3.9	4.0
Private nonfarm:						
Average weekly hours (hr.) 1/	July	08-03-84	35.3	35.3	35.4	35.0
Hourly earnings ($) 1/	July	08-03-84	8.37	8.33	8.31	8.04
Manufacturing:						
Average weekly hours (hr.) 1/	July	08-03-84	40.6	40.5	41.1	40.2
Unit labor cost (1967=100)	June	07-31-84	86.2	-5.5	-7.7	-7.4
Industrial production (1967=100)	July	08-15-84	165.6	11.0	8.6	10.6
Consumer goods	July	08-15-84	163.8	6.6	5.9	5.8
Business equipment	July	08-15-84	181.8	14.7	19.1	18.6
Defense & space equipment	July	08-15-84	135.1	15.3	5.7	12.2
Materials	July	08-15-84	165.1	13.2	8.9	11.7
Consumer prices all items (1967=100)	June	07-24-84	310.1	1.9	3.3	4.2
All items, excluding food & energy	June	07-24-84	300.4	3.6	4.6	5.1
Food	June	07-24-84	301.3	1.6	-.7	3.4
Producer prices: (1967=100)						
Finished goods	July	08-10-84	299.2	3.3	.8	2.5
Intermediate materials, nonfood	July	08-10-84	326.1	-1.5	2.8	2.7
Crude foodstuffs & feedstuffs	July	08-10-84	256.8	5.2	-18.1	6.1
Personal income ($ bil.) 2/	June	07-20-84	3,004.6	9.6	8.7	9.9
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	June	08-01-84	99.8	-2.4	-5.1	11.6
Capital goods industries	June	08-01-84	35.1	1.4	-8.5	11.4
Nondefense	June	08-01-84	28.1	-3.0	4.5	17.9
Defense	June	08-01-84	7.0	24.1	-38.9	-8.4
Inventories to sales ratio: 1/						
Manufacturing and trade, total	June	08-15-84	1.32	1.32	1.33	1.36
Manufacturing	June	08-01-84	1.46	1.45	1.42	1.50
Trade	June	08-15-84	1.20	1.22	1.24	1.23
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	June	08-01-84	.528	.524	.521	.570
Retail sales, total ($ bil.)	July	08-14-84	107.8	-.9	.3	9.1
GAF 3/	July	08-14-84	22.6	-3.3	-.5	9.4
Auto sales, total (mil. units.) 2/	July	08-03-84	10.8	3.4	4.5	10.1
Domestic models	July	08-03-84	8.4	5.6	2.8	16.0
Foreign models	July	08-03-84	2.4	-3.7	10.9	-6.9
Housing starts, private (thous.) 2/	June	07-18-84	1,900	5.3	14.3	9.0
Leading indicators (1967=100)	June	07-31-84	167.4	-.9	-.1	6.4

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

Recent economic information suggests continued strong economic growth, albeit less rapid than the exceptional pace earlier this year. Industrial production and payroll employment rose substantially in both June and July, and business fixed investment and multifamily construction remained robust through June. Retail sales fell in July; however, this decline followed two quarters of extraordinary growth in consumption. Meanwhile, both wage and price inflation continue at moderate rates.

Industrial Production

Industrial production rose 0.9 percent in July after an upward revised increase of 0.9 percent also in June. The gains in output were widespread among industries. Business equipment production, which has been growing rapidly for more than a year, rose 1.2 percent in July following increases of about 1-3/4 percent in each of the two preceding months. Output of both durable and nondurable materials also rose substantially in July. Production of durable consumer goods increased sharply, but nondurables rose little on balance. Auto assemblies, which had declined to a 7.7 million unit annual rate during the second quarter, increased to a 7.9 million unit rate in July and are scheduled to remain near this level, on average, through autumn. Output of construction supplies also rose moderately, following two small monthly declines.

The increases in production in June and July brought about a sharp rise in capacity utilization. The manufacturing utilization rate reached 82.6 percent in July, somewhat above the 1967-1982 average. However, operating rates continue to differ widely by sector. A number of industries were still showing rates below 80 percent in July, while electrical

INDUSTRIAL PRODUCTION
(Percentage change from preceding period: based on seasonally adjusted data)

	1984		1984		
	Q1	Q2	May	June	July
	-----Annual rate-----		--Monthly rate--		
Total	11.5	8.2	.4	.9	.9
Final products	11.9	8.5	.6	1.0	.8
Consumer goods	7.4	5.9	.2	.7	.6
Durable	16.0	-2.0	-.5	.9	1.6
Nondurable	4.1	9.2	.4	.7	.1
Business equipment	19.1	12.1	1.7	1.8	1.2
Defense and space equipment	17.4	12.8	.0	.2	1.3
Construction supplies	14.8	6.1	-.1	-.2	.4
Materials	12.3	8.8	.2	.9	1.1
Durable goods	20.6	11.4	.1	.7	1.5
Nondurable goods	0.5	7.0	.5	.8	1.0
Energy materials	10.9	4.8	.0	1.4	.0

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity, seasonally adjusted)

	1978-80	1982	1967-82	1984		
	High	Low	Avg.	May	June	July
Total industry	87.3	69.6	82.4	81.5	82.0	82.5
Manufacturing	87.5	68.8	81.8	81.6	82.0	82.6
Durable	89.4	64.8	80.5	81.1	81.5	82.5
Nondurable	87.2	73.8	83.9	82.3	82.8	82.8
Mining	90.4	69.6	86.5	75.6	76.6	78.2
Utilities[1]	86.8	79.0	88.6	84.8	85.8	85.0
Industrial materials	88.9	66.6	83.3	82.6	83.1	83.9
Metal materials	95.4	46.2	82.2	72.3	71.2	72.0
Paper materials	97.9	86.3	93.4	97.8	98.6	n.a.
Chemical materials	91.3	64.0	85.1	79.1	80.0	n.a.

1. The 1978-80 high is below the 1967-82 average because of the unusually slow growth in demand for electricity.

machinery, paper, and rubber and plastics were operating at rates in excess of 90 percent.

Employment and Unemployment

The July employment surveys gave mixed signals, but the weight of the evidence suggests continued strength in labor demand. The household survey reported a sharp drop in total employment in July while the payroll survey indicated a continued expansion; nonetheless, over the April-July period, both employment series reported a similar, strong increase of nearly one million jobs. Nonfarm payroll employment, generally the better indicator of monthly changes in labor demand, rose 300,000 in July, just a little less than the average gain over the first six months of 1984. Manufacturing employment rose 105,000, the largest increase since February, and the workweek remained at a high level. In other private sector industries, job gains were widespread but generally were somewhat smaller than in the past few months.

The volatility in the household data also was evident in the unemployment figures; civilian jobless rate jumped 0.4 percentage point, returning to the May level of 7.5 percent. For most worker groups, jobless rates retraced declines in June. When viewed over the past several months, unemployment rates have moved down for adult men and teenagers, but joblessness among adult women in July was roughly the same as earlier in the year. Labor force participation, which had climbed rapidly during the first five months of the year, has held steady since May.

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

	1983	1984 Q1	1984 Q2	1984 May	1984 June	1984 July
	- - Average monthly changes - -					
Nonfarm payroll employment[2]	282	344	339	319	308	302
Strike adjusted	282	339	347	311	321	294
Manufacturing	92	108	58	40	69	105
Durable	70	82	49	47	63	69
Nondurable	22	25	8	-7	6	36
Construction	22	22	66	40	62	32
Trade	69	88	81	90	77	40
Finance and services	96	105	112	122	117	41
Total government	3	1	0	1	-31	58
Private nonfarm production workers	249	259	296	260	270	200
Manufacturing production workers	84	81	39	22	39	96
Total employment[3]	330	400	536	886	460	-353
Nonagricultural	336	425	495	890	445	-294

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)

	1983	1984 Q1	1984 Q2	1984 May	1984 June	1984 July
Civilian, 16 years and older	9.6	7.9	7.5	7.5	7.1	7.5
Teenagers	22.4	19.5	18.7	19.0	17.6	18.3
20-24 years old	14.5	11.9	11.5	11.5	10.7	11.3
Men, 25 years and older	7.8	6.1	5.7	5.7	5.4	5.7
Women, 25 years and older	7.2	6.1	5.9	5.8	5.8	6.1
White	8.4	6.8	6.4	6.4	6.1	6.4
Black	19.5	16.5	15.9	15.8	15.0	16.9
Fulltime workers	9.5	7.6	7.2	7.2	6.7	7.2
Memo:						
Total national[1]	9.5	7.8	7.4	7.4	7.0	7.4

1. Includes resident Armed Forces as employed.

Personal Income and Consumption

Personal income growth has remained sizable in recent months. Buoyed by strong gains in employment, wages and salaries rose at a $12-1/2 billion annual rate in the second quarter, and are likely to show another large increase in July, reflecting the gain in payroll employment. With inflation moderate, real income growth also has been rapid. Real disposable income rose 7 percent at an annual rate in the second quarter; since the recovery began, real income has increased at an average annual rate of 6-1/4 percent, more than twice the long-run rate of growth.

With real income growth strong, both the Michigan Survey Research Center and the Conference Board reported that consumers remained optimistic in July. Evaluations of expected personal financial situations in the Michigan survey were still at very favorable levels, although high interest rates caused a further decline in favorable responses to the questions about housing in both surveys. Meanwhile, respondents to the Michigan survey expected price inflation for the coming year to be only 4.1 percent, the lowest rate expected since the mid-1970's.

Retail sales fell 0.9 percent in July, following rapid expansion in both the first and second quarters. Excluding autos, gasoline and nonconsumer stores, the reduction was 0.5 percent. The most pronounced decline in July was in the general merchandise, apparel, and furniture and appliance (GAF) grouping. Sales at these stores, which mostly sell discretionary-type items, fell 3.3 percent following very large increases on average for more than a year. Sales at gasoline stations dropped 0.6 percent in July, likely reflecting a decline in pump prices, while food outlays rose 0.4 percent.

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

		1984		1984		
	1983	Q1	Q2	Apr.	May	June
	- - Percentage changes at annual rates[1] - -					
Total Personal Income						
Nominal	7.5	12.4	9.1	11.6	4.7	9.6
Real[2]	4.3	8.3	6.9	9.9	4.7	8.1[e]
Disposable Personal Income						
Nominal	8.5	12.7	9.2	12.1	4.2	9.1
Real	5.3	8.6	6.9	10.2	4.4	7.8[e]
Expenditures						
Nominal	9.0	8.6	9.1	18.2	13.7	2.3
Real	5.7	4.6	6.9	16.3	13.9	1.2[e]
	- - Changes in billions of dollars[3] - -					
Total personal income	17.0	26.7	21.3	28.4	11.7	23.9
Wages and salaries	11.1	12.2	12.4	20.7	3.8	12.6
Private	9.5	9.7	10.9	19.2	2.4	11.1
Manufacturing	3.3	3.8	2.0	4.3	-.3	1.9
Farm	-.3	3.2	-1.5	-3.9	-2.0	1.3
Other income	6.8	16.6	9.7	8.9	8.1	12.0
Disposable personal income	16.3	23.7	17.9	25.5	8.9	19.3
Expenditures	15.7	9.1	21.7	34.5	26.3	4.4
Durables	3.9	-.6	5.4	3.3	14.3	-1.5
Nondurables	3.9	5.0	7.6	19.7	4.5	-1.5
Services	7.9	4.7	8.8	11.5	7.5	7.4
Personal saving rate (percent)	5.1	6.1	6.0	6.4	5.6	6.1

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. Total personal income is deflated by the personal consumption expenditure deflator.
3. 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.
e--staff estimate.

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

	1984 Q1	1984 Q2	1984 May	1984 June	1984 July
Total sales	3.5	2.7	.7	.5	-.9
(Real)[1]	2.5	2.7	.9	.6	n.a.
Total, less automotive, gasoline and nonconsumer stores	3.0	2.3	.2	.7	-.5
GAF[2]	3.2	3.9	.6	2.4	-3.3
Durable	5.1	4.0	1.3	1.2	-1.4
Automotive group	5.7	4.4	1.6	2.0	-2.1
Furniture & appliances	3.5	3.3	-1.4	1.7	-2.1
Nondurable	2.7	2.0	.4	.1	-.6
Apparel	2.4	6.6	.9	2.7	-3.0
Food	2.2	2.2	-.3	.2	.4
General merchandise[3]	3.4	3.0	1.2	2.5	-3.9
Gasoline stations	.3	1.2	1.8	-3.6	-.6

1. BCD series 59. Data are available approximately three weeks following the retail sales release.
2. General merchandise, apparel, furniture and appliance stores.
3. General merchandise excludes mail-order nonstores.

AUTO SALES, PRODUCTION & INVENTORIES
(Millions of units; seasonally adjusted annual rates)

	1984 Q1	1984 Q2	1984 June	1984 July	1984 Aug
Total sales[1]	10.5	10.6	10.4	10.8	n.a.
Imports	2.3	2.3	2.4	2.4	n.a.
Domestic	8.2	8.2	8.0	8.4	7.4[4]
Domestic production	8.2	7.7	7.8	7.9	n.a.
Captive imports from Canada (Domestic models)	.22	.25	.32	.30[3]	n.a.
Domestic inventories	1.49	1.41	1.41	1.30	n.a.
Days' supply[2]	56	56	54	47	n.a.

1. Components may not add to totals due to rounding.
2. Quarterly days' supply are based on end of quarter stocks and average sales for the quarter.
3. Staff estimate.
4. First 10 days.

Sales of foreign and domestic autos were at a 10.8 million unit annual rate in July, up from the 10.6 million unit average for the first half of the year. The pickup in sales was in domestic models, which were at an 8.4 million unit rate. Imported cars remained near the 2-1/2 million pace seen in May and June. With inventories relatively lean and domestic production plus captive imports from Canada expected to average only 8-1/4 million units in August and September, domestic sales are not likely to be able to exceed the July level for at least several months. In fact, in the first ten days of August sales dropped back to a 7.4 million unit annual rate.

Business Inventories

Inventory accumulation continued in the second quarter, although less vigorously than earlier: the book value of total manufacturing and trade stocks rose at an annual rate of $53.6 billion in the second quarter compared to $73.7 billion in the first quarter. Most of the difference was attributable to the swing in auto stocks from accumulation early in the year to decline in May and June. The second-quarter inventory expansion was accompanied by relatively strong growth in shipments and sales; as a result, the overall inventory-sales ratio in recent months has remained at a level that is quite low by historical standards.

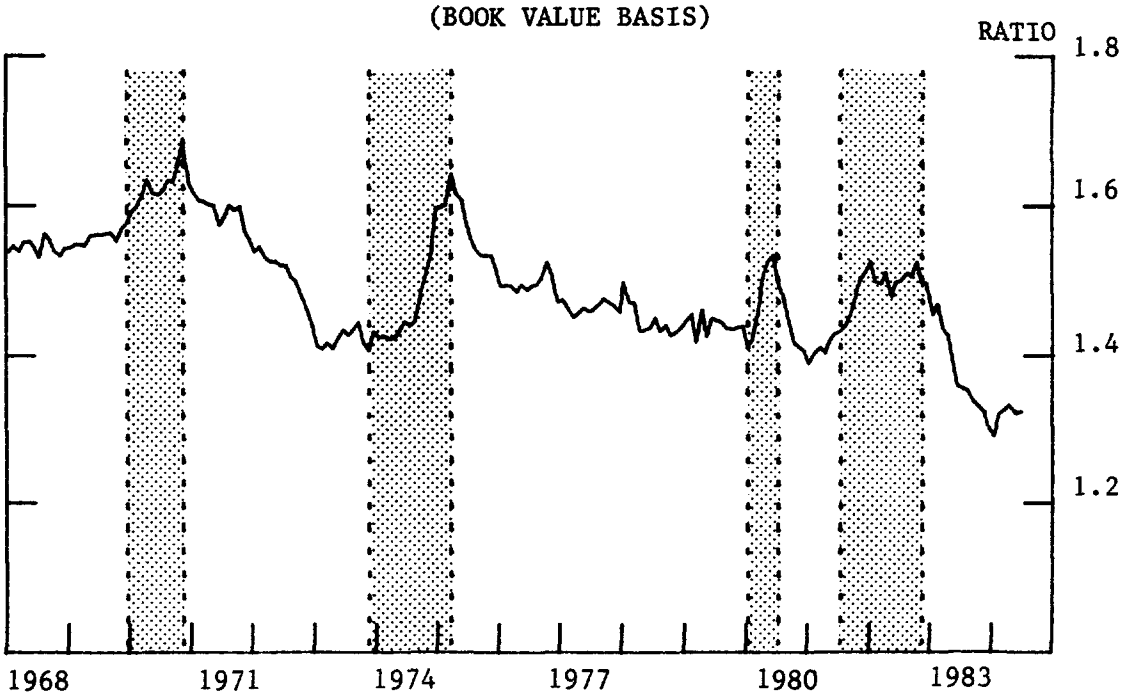
Manufacturers' inventories rose at an annual rate of $32.7 billion in book value terms in June, comparable to the average rate of increase from February to May. Recent stock increases have been fairly widespread by industry, especially in the durable goods category. The rate of accumulation in capital-goods-related industries has been particularly notable; given the growth in employment and orders in these industries,

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

	1984		1984		
	Q1	Q2	Apr.	May[r]	June[p]
Book value basis					
Total	73.7	53.6	99.5	62.2	-1.0
Manufacturing	27.8	39.7	36.2	50.4	32.7
Wholesale trade	13.6	8.4	27.7	11.0	-13.4
Retail trade	32.3	5.4	35.7	.8	-20.2
Automotive	10.5	-4.3	15.6	-12.7	-16.0
Ex. auto	21.8	9.8	20.1	13.5	-4.3
Constant dollar basis					
Total	24.4	n.a.	32.9	23.0	n.a.
Manufacturing	9.1	n.a.	8.8	17.3	n.a.
Wholesale trade	3.9	n.a.	12.5	6.9	n.a.
Retail trade	11.4	n.a.	11.7	-1.1	n.a.
Automotive	3.8	n.a.	4.9	-6.7	n.a.
Ex. auto	7.7	n.a.	6.8	5.6	n.a.

r--revised estimates.
p--preliminary estimates.

INVENTORIES RELATIVE TO SALES
(BOOK VALUE BASIS)



the buildup in inventories apparently reflects continued strength in the capital goods sector. Despite the recent accumulation, manufacturers inventories are generally still quite lean relative to sales, with stock-sales ratios in most industries below their pre-recession lows.

Wholesale and retail inventories declined sharply in June after showing increases on a book-value basis in the preceding two months. Four-fifths of the $20 billion (annual rate) decline in June retail stocks was at auto dealers. General merchandise stores, where stocks had increased considerably in previous months, also reported sizable inventory declines in June.

Business Fixed Investment

Outlays for business fixed investment have continued to rise rapidly this year, and commitments for future spending remain high, as strong growth in final demand and improvement in corporate cashflow appear to be offsetting the potential negative impact of high interest rates.

Shipments of nondefense capital goods rose 4-1/2 percent in both May and June, and were up almost 6 percent for the second quarter as a whole. The increases were widespread, with both high-technology items, such as office and computing machines and communication equipment, as well as heavy industrial machinery posting significant gains. Business demand for cars and trucks also has continued to expand at a rapid rate. Meanwhile, new orders for nondefense capital goods were up about 5 percent in the second quarter, and the backlog of outstanding orders continued to rise, signalling further growth in equipment production in the near term.

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

	1983	1984		1984		
	Q4	Q1	Q2	Apr.	May	June
Producers' durable equipment						
Nondefense capital goods						
Shipments	6.0	1.1	5.8	-1.7	4.4	4.4
Orders	6.9	5.2	5.0	-3.6	11.9	-3.0
Unfilled orders	2.0	4.4	4.0	.8	2.3	.8
Addendum:						
Sales of heavy-weight trucks (thousands of units, annual rate)	199	232	269	302	211	295
Nonresidential structures						
Nonresidential construction	3.3	8.0	8.5	2.7	3.9	.7
Office	1.7	11.5	10.0	4.4	4.1	.6
Other commercial	5.7	16.5	20.5	5.5	4.7	2.1
Industrial	-12.6	20.5	6.4	-4.4	9.9	-.6
Value of permits for nonresidential buildings	-2.1	16.0	.8	-23.6	31.7	-10.9
Oil and gas drilling	16.8	-.5	-3.9	-3.5	7.5	2.0

Nonresidential construction also has expanded rapidly in the first half of this year, with nominal expenditures rising almost 20 percent between December and June. The largest increase over that period was in construction of stores and warehouses, which had been weak for several years previously, while office and industrial building also showed substantial gains. In the second quarter, contracts and permits for new building were running well above year-earlier levels, indicating a continued expansion of activity in this sector. The only category of investment that has been relatively weak so far this year is oil and gas well drilling, which showed more than its usual seasonal decline in the late winter and early spring. However, activity in this area has risen somewhat in recent months.

Housing Markets

The construction of multifamily housing units has continued at a high rate in the past few months, but the market for single-family homes has shown signs of weakening. Sales of new single-family homes were flat in June at a 620,000 unit annual rate, following three consecutive monthly declines. Responding to the dropoff in the demand for new homes, starts of single-family houses declined 7 percent in June to a 1.07 million unit annual rate, bringing the second-quarter total to a level 11 percent below the advanced first-quarter pace. In addition, newly issued single-family building permits edged down 1 percent in June, the fourth consecutive monthly decline.

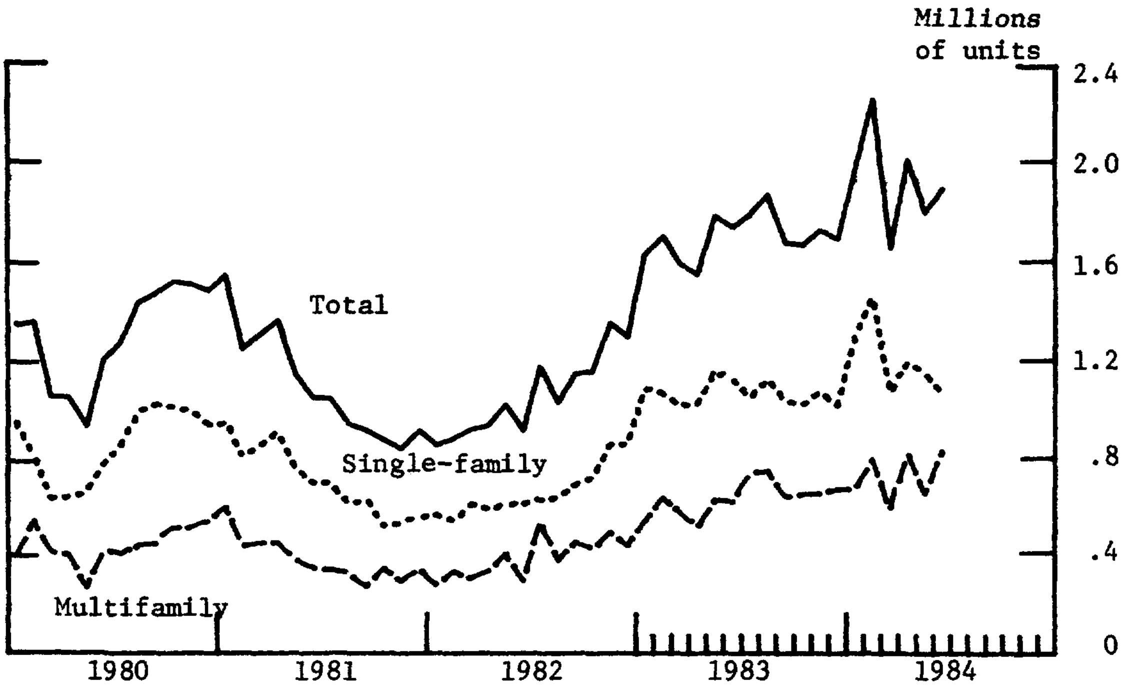
In contrast to the single-family market, the multifamily sector is showing surprising strength. Multifamily starts, which had dropped

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

	1983	1984		1984		
	Annual	Q1	Q2	Apr.	May	June[1]
All units						
Permits	1.61	1.81	1.76	1.76	1.75	1.78
Starts	1.70	1.97	1.91	2.02	1.81	1.90
Single-family units						
Permits	.90	1.02	.93	.96	.91	.91
Starts	1.07	1.28	1.14	1.20	1.15	1.07
Sales						
New homes	.62	.69	.63	.65	.62	.62
Existing homes	2.72	2.94	3.05	3.09	3.06	2.99
Multifamily units						
Permits	.70	.79	.83	.80	.83	.87
Starts	.64	.69	.77	.82	.65	.83
Mobile home shipments	.30	.30	n.a.	.29	.30	n.a.

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

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



sharply in May, rebounded in June, and for the second quarter as a whole were at their highest level in a decade. Issuance of permits for multifamily construction also has been strong, increasing an additional 5 percent in June.

Despite the rapid growth in multifamily construction, the rental market has not yet shown signs of oversupply. The vacancy rate for multifamily rental housing was up just 0.1 percentage point in the second quarter to 6.7 percent, about equal to the average rate over the past ten years. The stability in rental vacancy rates is due in part to a resurgence in the rate of household formations. According to the Census Bureau, approximately 1.5 million households were formed in the year ending last March, a rate more in line with the long-run trend than the abnormally low 400,000 households formed in the previous year. Most household formations occur among young adults who are more likely than other age groups to rent.

The supply of new rental units should expand quickly in coming months. The pipeline of multifamily projects under construction in April and May was larger than at any time during the previous four years, and most of these units will be completed by the end of 1984.

Federal Government

The federal government budget deficit for fiscal year 1984 totaled $142 billion (unified basis) through June, $16 billion less than in the comparable nine month period of fiscal year 1983. The narrowing of the deficit reflects a $48 billion rise in receipts, as the economic expansion raised tax bases and the initial impact of the tax cuts of the previous three years tapered off. Growth in receipts would have been still stronger but for the favorable inflation developments that have resulted in lower nominal GNP growth. Outlay increases, however, have remained strong and, through June, total spending was $32 billion above a year earlier. Spending for national defense and interest have been the most rapidly rising outlay components.

For FY1985, only three of thirteen appropriation bills have been enacted thus far, and negotiations on budget cuts needed to complete the deficit reduction "down payment" package have stalled. Disagreement over the size of future defense spending increases appears to be the major stumbling block.

Meanwhile, the Congressional Budget Office has released its budget update. CBO now estimates a deficit of $172 billion in FY1984 and $178 billion in FY1985, and projects even larger deficits for the later years. Based on the assumption of annual real GNP growth averaging around 3 percent, inflation holding at 4-3/4 percent, and short-term interest rates declining to 9 percent, CBO projects the deficit rising to $263 billion in FY1989. The CBO projections for 1985 through 1989 are current service estimates that assume annual real growth in defense spending authority of 5 percent and maintenance of other federal government programs at current operating levels.

The administration is expected to release its Mid-session Review of the Budget soon, updating budget projections for the 1984-1989 period. The budget figures will incorporate new economic assumptions. The administration now projects GNP growth to be 6.5 percent from the fourth quarter of 1983 to the fourth quarter of 1984, and the GNP price deflator is expected to rise 4.4 percent. For fiscal year 1985, the projection has an annual growth rate of about 4 percent in real GNP, and an inflation rate of 4.7 percent.

State and Local Government

Activity in the state and local sector has begun to respond to their much improved financial conditions this year. Spending rose at a 3-1/4 percent annual rate in real terms in the first half of 1984, after showing little change, on balance, over the preceding two years. The recent increase has been primarily in construction--particularly in spending for highways and streets, which rose about 16 percent (in nominal terms) over the first six months of 1984. State and local sector employment also has shown a small increase since mid-1983, rising by about 2 percent following three years of decline.

Exports and Imports

The restraining effect of the external sector on economic activity has lessened somewhat in recent months. Following a year of little growth, merchandise exports rose sharply in the first quarter of 1984 and expanded a bit more in the second quarter, as increasing demand from major trading-partner countries offset some of the restraining effect of the high exchange value of the dollar. Imports declined from their record April level in May and June, but were still extremely high, reflecting both the strength of the U.S. economic recovery and the price competitiveness of foreign-made goods. The U.S. merchandise trade deficit, at a $105 billion annual rate in the second quarter, was up a little from the record level posted in the first quarter.

Prices of nonoil imports have increased during the past three quarters following a year and a half of decline. As measured by unit value indexes, prices rose about 4-1/4 percent at an annual rate in the first half of 1984. The price of imported oil in the second quarter, averaging $28.26 per barrel, was only marginally higher than in the first quarter. (A more complete discussion of international economic developments is included in Part IV.)

Prices

Despite the continued strong economic expansion in the first half of the year, inflation reports generally continue to look good. The consumer price index rose 0.2 percent in June for the second consecutive month; producer prices of finished goods, which were largely unchanged in the second quarter, were up 0.3 percent in July.

Food prices at the consumer level were down somewhat in the second quarter, after a sharp winter runup. In July, producer prices for food, particularly at the finished level, turned up. However, much of this surge, which was mainly in fresh vegetables and meats, may be temporary. Sharp swings in prices for vegetables are common, and are often reversed within a few months when new crops are harvested. In addition, recent price declines in commodity markets for livestock suggest an easing in meat prices in the near future. In general, pressures on livestock prices have been less than expected this summer as meat and poultry marketings were well maintained through the second quarter. Meanwhile, the Agriculture Department is projecting substantial increases in the next few months in the supply of corn and soybeans--crops that were in critically short supply coming into the current growing season.

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

	Relative Importance Dec. 1983	1982	1983	1983 Q4	1984 Q1	1984 Q2	1984 May	1984 June
				—Annual rate—			-Monthly rate-	
All items[2]	100.0	3.9	3.8	4.0	5.0	3.3	.2	.2
Food	18.7	3.1	2.6	4.3	9.0	-.7	-.3	.1
Energy	11.9	1.3	-.5	-1.7	-1.4	.8	.2	-.7
All items less food and energy[3]	69.4	6.0	4.9	4.9	5.1	4.7	.3	.3
Commodities	26.5	5.0	5.0	4.6	3.4	3.7	.2	.1
Services	42.9	7.0	4.8	5.3	5.9	5.3	.4	.4
Memorandum:								
CPI-W[4]	100.0	3.9	3.3	2.6	2.3	2.7	.3	.1

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners costs.
4. Index for urban wage earners and clerical workers.

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

	Relative Importance Dec. 1983	1982	1983	1983 Q4	1984 Q1	1984 Q2	1984 June	1984 July
				—Annual rate—			-Monthly rate-	
Finished goods	100.0	3.7	.6	1.1	5.7	.0	.0	.3
Consumer foods	24.0	2.1	2.3	5.8	16.9	-8.5	-.6	1.4
Consumer energy	12.0	-.1	-9.2	-10.4	-8.1	9.6	-.2	-1.7
Other consumer goods	41.9	5.3	1.9	1.5	4.5	1.3	.3	.2
Capital equipment	22.2	3.9	1.9	1.8	3.8	2.8	.0	.2
Intermediate materials[2]	94.8	.2	1.5	2.5	2.9	3.4	.5	-.1
Exc. energy	79.5	.6	3.0	4.1	3.8	1.9	.3	.0
Crude food materials	52.8	1.5	8.0	12.1	12.5	-21.3	-2.3	.4
Crude energy	31.3	2.6	-4.6	-2.3	-1.6	4.2	.2	.3
Other crude materials	15.9	-7.6	15.5	2.4	-9.7	30.6	1.2	-1.6

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

In the energy sector, both domestic and international markets continue to be influenced by excess supply. Consumer energy prices were down in the June CPI, with declines for gasoline, fuel oil, and natural gas. Spot prices of gasoline and fuel oil have declined further since June, and frequent price discounts for imported crude oil have been reported.

Excluding food and energy, consumer prices rose 0.3 percent in June for the second month in a row. Prices for both new and used cars were little changed, while prices for apparel and house furnishings declined. The indexes for apparel and house furnishings, affected in varying degrees by import competition related to the higher dollar, have been virtually flat over the past 12 months. Recent increases in service prices have remained around 0.4 percent a month, similar to those earlier in the year (except for January when the index was boosted by large adjustments in telephone rates associated with the breakup of AT&T). Overall, the rise in the CPI less food and energy items has been about 5 percent at an annual rate so far this year, the same as in 1983.

At the producer level, capital equipment prices rose 0.2 percent in July after being flat in June. Prices of intermediate materials (less food and energy) were unchanged in July after increasing at an average annual rate of about 3 percent over the previous year and a half.

Wages and Labor Costs

Despite continued strong growth in labor demand, wage inflation moderated further during the first half of 1984. The comprehensive employment cost index showed private wage and salary rates rising 4 per-

SELECTED MEASURES OF LABOR COSTS IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; based on seasonally adjusted data)

	1981	1982	1983	1983 Q4	1984 Q1	1984 Q2	1984 to date
Hourly earnings index, wages of production workers[1]							Dec. 1983-July 1984
Total private nonfarm	8.3	6.1	3.9	4.1	3.5	3.2	3.6
Manufacturing	8.8	6.0	2.7	3.3	3.8	3.0	3.1
Contract construction	8.3	5.4	1.5	1.3	2.3	1.9	1.4
Transportation and public utilities	8.5	6.1	4.3	4.6	3.7	3.3	5.1
Trade	6.9	5.4	4.7	4.5	2.7	2.5	2.6
Services	9.1	7.0	4.9	5.1	3.3	5.0	5.2
Employment cost index, wages and salaries of all persons[2]							1983-Q4 to 1984-Q2
Total	8.8	6.3	5.0	5.0	4.2	4.1	4.2
By occupation:							
White collar	9.1	6.5	6.0	4.9	3.1	6.4	4.8
Blue collar	8.6	5.6	3.8	4.3	4.9	2.5	3.7
Service workers	8.3	8.5	4.6	11.4	5.2	1.8	3.5
Major collective bargaining settlements[3]							1st six months
First-year wage adjustments	9.8	3.8	2.6	--	--	--	2.6
Total effective wage change	9.5	6.8	4.0	--	--	--	3.7
Labor costs and productivity, all persons							1983-Q4 to 1984-Q2
Compensation per hour	8.8	7.2	3.9	4.1	6.1	3.6	4.8
Output per hour	.5	1.4	3.9	1.0	2.9	3.3	3.1
Unit labor costs	8.2	5.8	.0	3.0	3.1	.3	1.7
Employment cost index, compensation[4]							
Compensation per hour	9.8	6.4	5.7	4.9	7.0	3.7	5.4

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.
2. Seasonally adjusted by the Board staff.
3. Data are for contracts covering 1,000 or more workers.
4. Not seasonally adjusted.

cent at an annual rate in the second quarter, about the same as in the first quarter and nearly 1 percentage point less than in 1983. The restraint has been fairly widespread among worker groups. The main exception is professional and technical employees, who continued to receive wage increases averaging 6-1/2 percent in the first half of 1984. In contrast, wage changes for blue-collar workers have averaged less than 4 percent at an annual rate so far this year.

The moderate rate of wage inflation in the first half of the year in part reflected continued restraint in major collective bargaining agreements. Negotiated wage adjustments in private industry, exclusive of COLAs, averaged 2.6 percent in the first contract year and 2.8 percent annually over the life of the contracts--the same as those negotiated in 1983. Although initial pay cuts or freezes were less pervasive during the first six months of 1984, the average size of new settlements declined in cases where workers did receive an increase. Adjustments under previously negotiated multiyear contracts also have been small this year. As a result, overall wage inflation for union workers is now running under 4 percent, a little less than the rate for nonunion workers.

For the private nonfarm sector as a whole, hourly compensation, which includes both wages and employer contributions to payroll taxes and employee benefits, rose at just a 3-1/2 percent annual rate in the second quarter of 1984. Meanwhile, productivity advanced at a brisk 3 percent annual rate in both the first and second quarters, in part reflecting strong output gains. The moderate increases in hourly compensation coupled with the cyclical rebound in productivity have held the rise in unit labor costs to just 1-3/4 percent over the first half.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981 Cyclical peak	1983 Cyclical low	1984 FOMC May 22	1984 FOMC July 17	1984 Aug. 14	Change from: FOMC May 22	Change from: FOMC July 17
Short-term rates							
Federal funds[2]	20.06	8.42	9.75	11.21	11.60	1.85	.39
Treasury bills							
3-month	17.01	7.55	10.04	10.18	10.30	.26	.12
6-month	15.93	7.62	10.50	10.62	10.50	--	-.12
1-year	15.21	7.73	10.70	10.96	10.62	-.08	-.34
Commercial paper							
1-month	18.63	8.00	10.16	11.04	11.16	1.00	.12
3-month	18.29	7.97	10.52	11.18	11.15	.63	-.03
Large negotiable CDs[3]							
1-month	18.90	8.08	10.47	11.28	11.31	.84	.03
3-month	19.01	8.12	11.10	11.58	11.45	.35	-.13
6-month	18.50	8.20	11.80	12.13	11.63	-.17	-.50
Eurodollar deposits[2]							
1-month	19.80	8.68	10.73	11.51	11.61	-.12	.10
3-month	19.56	8.71	11.58	12.01	11.80	.22	-.21
Bank prime rate	21.50	10.50	12.50	13.00	13.00	.50	--
Treasury bill futures							
Sept 1984 contract	--	8.71	11.29	10.71	10.18	-1.11	-.53
Dec. 1985 contract	--	10.86	12.68	12.57	11.50	-1.18	-1.07
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	16.59	9.33	12.86	13.12	12.40	-.46	-.72
10-year	15.84	10.12	13.52	13.37	12.67	-.85	-.70
30-year	15.21	10.27	13.53	13.18	12.48	-1.05	-.70
Municipal revenue (Bond Buyer index)	14.24	9.21	10.82[4]	10.88[4]	10.29[4]	-.53	-.59
Corporate--A utility Recently offered	18.33*	11.64	14.90e	14.85e	14.16[5]	-.74	-.69
Home mortgage rates							
S&L fixed-rate	18.63	12.55	14.04[5]	14.68[5]	14.54[5]	.50	-.14
FNMA ARM, 1-yr.	N.A.	10.49	13.00[5]	13.60[5]	13.25[5]	.25	-.35

	1982 Lows	1983 Highs	1984 FOMC May 22	1984 FOMC July 17	1984 Aug. 14	Percent change from: FOMC May 22	Percent change from: FOMC July 17
Stock prices							
Dow-Jones Industrial	776.92	1287.20	1116.62	1112.90	1214.11	8.7	9.1
NYSE Composite	58.80	99.63	88.43	87.76	94.54	6.9	7.7
AMEX Composite	118.65	249.03	202.68	193.64	207.43	2.3	7.1
NASDAQ (OTC)	159.14	328.91	240.80	233.50	250.63	4.1	7.3

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
*September average.
4. One-day quotes for preceding Thursd...
5. One-day quotes for preceding Friday.
e--estimated.

Stock and bond markets have rallied over the intermeeting period. The Chairman's Humphrey-Hawkins testimony and recent indicators of economic activity, prices, and money were widely interpreted as limiting the likelihood of substantial increases in short-term interest rates in the near future. From their spring peaks, yields on Treasury notes and bonds have fallen 100 to 150 basis points with more than half the decline coming since the last FOMC meeting, and major stock price indexes have surged more than 10 percent since late July on record volume.

The gains in long-term markets occurred despite a continued upward drift in the federal funds rate, which has been above 11-1/2 percent most recently. The funds rate has risen more than a quarter of a percentage point since the last FOMC meeting, and a percentage point over the past four months, although adjustment plus seasonal borrowing has remained consistently close to the $1 billion level, as banks have become increasingly cautious in their use of the discount window. Three-month Treasury bill yields also have moved up in the intermeeting period, partly reflecting replenished supplies following earlier paydowns due to debt ceiling constraints, while rates on other securities of comparable maturity declined. Some easing of concerns about bank and other private credits contributed to the further narrowing of risk premium spreads between private and Treasury rates.

M1 declined in July following very rapid growth in the previous month, and M2 grew sluggishly as the weakeness in M1 more than offset some pickup in nontransactions M2. Through July, both aggregates remained comfortably within their annual ranges, with M1 slightly above and M2 below the respective midpoints. In contrast, M3 continued to expand at its June

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

	1983 Q3	1983 Q4	1984 Q1	1984 Q2	1984 June	1984 July**	Growth from Q4 1983 to July 1984**
	------- Percentage change at annual rates ------						
1. M1	9.5	4.8	7.2	6.2	11.5	-2	6
2. M2	6.9	8.5	6.9	6.9	7.1	5	7
3. M3	7.4	9.8	9.0	10.4	9.1	9	10
							Levels in billions of dollars June 1984
Selected components							
4. Currency	9.1	9.7	8.7	7.2	10.2	6	154.2
5. Demand deposits	4.0	-0.5	1.2	3.6	14.7	-6	248.3
6. Other checkable deposits	21.2	9.6	16.2	9.9	7.8	-4	138.7
7. M2 minus M1[2]	6.1	9.7	6.9	7.1	5.8	7	1725.8
8. Overnight RPs and Eurodollars, NSA[3]	-8.1	23.4	19.3	-7.5	-54.7	-2	56.5
9. General purpose and broker/dealer money market mutual fund shares, NSA	-13.1	-1.2	9.8	15.5	18.8	13	148.8
10. Commercial banks	12.2	12.4	5.4	6.7	9.2	7	738.7
11. Savings deposits, SA, plus MMDAs, NSA[4]	11.0	5.9	6.5	4.9	1.6	-6	373.0
12. Small time deposits	13.7	19.3	4.4	8.6	17.3	20	365.7
13. Thrift institutions	7.3	7.3	6.4	6.2	7.5	9	788.5
14. Savings deposits, SA, plus MMDAs, NSA[4]	1.0	-7.0	-0.9	2.6	-8.4	-16	325.2
15. Small time deposits	12.3	18.8	11.8	8.9	18.9	27	463.3
16. M3 minus M2[5]	9.8	15.8	17.6	25.3	17.4	23	565.9
17. Large time deposits	11.9	15.7	24.8	31.5	36.9	32	378.9
18. At commercial banks, net[6]	-4.6	-0.4	10.0	24.2	28.5	26	249.6
19. At thrift institutions	63.5	58.1	59.0	46.4	54.3	43	129.4
20. Institution-only money market mutual fund shares, NSA	-17.8	16.6	10.9	6.8	8.6	9	42.3
21. Term RPs, NSA	15.2	50.0	18.4	41.8	-40.9	-6	59.5
22. Term Eurodollars, NSA	-1.7	-3.9	5.7	3.5	-54.7	-15	90.0
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-2.6	5.3	4.6	6.9	-1.6	4	418.0
24. Large time deposits, gross	-2.0	0.1	2.0	7.8	9.8	3	312.7
25. Nondeposit funds	-0.6	5.2	2.6	-0.9	-11.4	1	105.3
26. Net due to related foreign institutions, NSA	1.3	3.2	1.9	0.9	-5.6	0	-34.1
27. Other[7]	-2.0	2.1	0.6	-1.8	-5.8	1	139.4
28. U.S. government deposits at commercial banks[8]	1.0	-1.2	1.2	-1.3	0.7	-1	12.9

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. Nontransactions M2 is seasonally adjusted as a whole.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during June and July at rates of 1.9 and 7 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased in June and July at rates of 0.7 and 8 percent respectively.
5. The non-M2 component of M3 is seasonally adjusted as a whole.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
**Based on nearly complete data for July. Monthly growth rates are rounded to the nearest full percentage point, average monthly changes are rounded to the nearest billion dollars, and Q4 to July rates are rounded to the nearest one-half percentage point.

pace and remained above its annual range, as the runoff of term RPs and Eurodollars slowed markedly.

In line with the vigorous business expansion, credit market debt continued to grow rapidly, although there are some signs of a modest slowing. Business short-term borrowing, particularly at banks, eased considerably in June and July, owing in part to a reduced need for merger finance, and was only partially offset by a pickup in long-term borrowing following the interest rate declines. The flow of new mortgage commitments at S&Ls and the growth of consumer installment credit outstanding moderated in June after huge increases in May, though both were still as rapid as earlier in the year. On the other hand, the federal government has continued to borrow heavily, and state and local governments, resuming issuance of single-family housing and industrial development bonds, have stepped up their borrowing. Overall, domestic nonfinancial debt expanded at an estimated 13 percent annual rate in July, only slightly below its second-quarter pace, while borrowing by nonfederal sectors is estimated to have eased more than 1-1/2 percentage points, to an 11-3/4 percent rate.

Monetary Aggregates and Bank Credit

M1 contracted about 2 percent at an annual rate in July after expanding briskly at an 11-1/2 percent rate in June. Earlier interest rate increases may well have contributed to M1's weakness last month. After slowing in June, other checkable deposits--believed to be more interest-sensitive than other M1 components--declined for only the third month since NOWs were extended nationwide. Demand deposits also fell, reversing part of their huge increase in June. To a small degree, seasonal adjustment distortions may have overstated M1 weakness in July, as social security cost of living adjustments and personal tax cuts of recent years likely have tended to boost the July seasonal factors.

Reflecting the weakness in M1, M2 growth slowed in July, to about a 5 percent annual rate. Growth of nontransaction balances in M2 actually picked up, but only to a 7 percent rate, about in line with the subdued pace of the first half of the year. There was considerable divergence in the growth rates of the nontransactions components. Money market mutual fund (MMMF) shares continued to grow at a double digit pace as they have, on average, over the past several months, and small time deposits accelerated to a 24 percent rate. However, savings deposits and MMDAs contracted again last month. The apparent reallocation of funds within these deposit categories suggests that depositors were responding to relative interest rate incentives: as short-term market rates have risen, MMMF yields have become more attractive relative to lagging rates paid on bank money market deposits, and longer-term time deposits rates have been relatively high reflecting the steep yield curve.[1] Overnight RPs and Eurodollars were little changed in July, after a sizable June decline. The leveling off of overnight RPs likely was related to a cessation of runoffs in bank holdings of government securities.

M3 growth in July was about unchanged from the June pace, as somewhat faster growth in its non-M2 component offset slower M2 expansion. The large CD component of M3 continued to grow rapidly, though off somewhat

1. In July, increased competition for small time deposits led to a rate skirmish among New York City depositories, raising yields of 6-month deposits by 150 basis points during the month while yields of large CDs were declining. These rate increases appear to have affected the composition of deposit growth in this region, favoring time deposits at commercial banks, but not the growth of M2 overall.

from the pace of the previous two months as CD issuance by thrift institutions moderated. An apparent easing in the growth of other managed liabilities at thrifts suggests some moderation in credit expansion, total deposits at thrifts continued to advance strongly, as thrifts gained the bulk of the July increase in inflows to small time deposits.

Commercial bank credit accelerated to a 9 percent annual rate in July after a pause in June. This July pickup was largely accounted for by a moderate increase in holdings of Treasury securities, and a levelling off of the volatile security loan category following sharp declines in June. The firming in Treasury security holdings at banks was largely in trading accounts and may reflect lowered rate expectations by these institutions. Growth in business and consumer loans showed little change from June, and expansion in real estate loans was the smallest thus far in 1984.

Business Finance

Borrowing by nonfinancial firms has continued rapid early in the third quarter, bolstered by further increases in capital spending that again substantially outpaced growth in internal funds. Nevertheless, credit demands appear to be moderating as cash needs to finance mergers lessen.

The composition of business borrowing has changed somewhat since last quarter. Business loans at banks slowed appreciably in June and have not rebounded. Much of the weakness is accounted for by reduced borrowing to finance large mergers; part of the merger-related borrowing has been shifted to the commercial paper market where issuance remains strong and some to the bond market. Total bond offerings have increased sharply as corporations have taken advantage of lower bond yields; the Board's single

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

	1983 Q4	1984[2] Q1	Q2	May	June	July p	Levels in bil. of dollars July p
	Commercial Bank Credit						
1. Total loans and securities at banks[3]	12.4	14.5	7.6	14.9	1.8	9.3	1670.4
2. Securities	10.8	4.4	-7.9	2.2	-15.6	1.1	431.9
3. Treasury securities	25.1	-1.9	-8.1	10.3	-26.9	7.9	184.5
4. Other securities	0.6	9.2	-7.6	-3.8	-7.2	-3.9	247.4
5. Total loans[3]	12.9	18.3	13.1	19.3	8.0	11.9	1238.5
6. Business loans[3]	10.1	18.8	16.6	27.7	12.9	12.5	459.0
7. Security loans	60.8	0.0	-32.2	26.8	-104.7	0.0	25.1
8. Real estate loans	10.3	14.5	14.5	14.0	15.9	11.7	362.8
9. Consumer loans	22.1	22.3	21.4	22.4	20.5	20.2	247.9
	Short- and Intermediate-Term Business Credit						
10. Business loans net of bankers acceptances	10.3	18.1	16.8	27.5	14.0	11.5	448.9
11. Commercial paper issued by non-financial firms[4]	25.5	15.1	69.4	33.5	74.4	65.7	57.8
12. Sum of lines 10 & 11	12.0	17.7	21.9	27.9	20.4	17.2	506.7
13. Line 12 plus loans at foreign branches[5]	12.1	17.5	21.9	29.0	18.9	15.9	526.2
14. Total bankers acceptances outstanding[6]	18.9	-22.2	45.4	61.2	16.4	n.a.	n.a.
15. Line 13 plus total bankers acceptances outstanding	13.1	12.1	24.9	33.3	18.4	n.a.	n.a.
16. Finance company loans to business[6]	29.0	28.8	8.4	7.2	10.7	n.a.	n.a.
17. Total short- and intermediate-term business credit (sum of lines 15 and 16	15.3	14.4	22.5	29.4	17.5	n.a.	n.a.

p--preliminary
n.a.--not available.
1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Growth rates beginning 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.
3. 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.
4. Average of Wednesdays.
5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
6. Based on average of current and preceding ends of month.

A utility bond rate has fallen 115 basis points over the past six weeks. However, through July, effective maturities of bond issues shortened further, as variable rate and extendible note issues continued to increase in volume. A stronger movement toward a lengthening of overall debt maturities appeared in early August, as a number of bond issues maturing in 15 years or more were marketed successfully.

The stock market rally also has been impressive. Since late July, share prices have risen enough to offset losses accumulated over the previous six months. The bulk of the gain occurred during the first three trading sessions of August. Trading volume was enormous, and activity on two of the days set records. Before the rally, new issue volume had slowed to a trickle, but the rise in share prices brought with it a small increase in new equity sales in early August. Share price gains have been widespread, and the more optimistic outlook for interest rates among market participants has been especially helpful to bank and thrift stock prices, which have risen relative to broad market indexes in recent weeks. On average, however, prices of depository institutions' shares still show about a 10 percent relative decline since early May.

Yields of Eurodollar bonds have risen relative to those of U.S. Treasury notes since the repeal of the 30 percent withholding tax. The repeal has not stimulated any outpouring of corporate issues tailored for foreign investors or any noticeable increase in foreign demand for Treasury securities. Issuers and investors are generally waiting for the Treasury to loosen the strictures of the Tax Compliance Act of 1983 that established a 20 percent backup withholding tax for investors who fail to provide an adequate identification, which many Euro-investors wish to avoid.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1983	1984 Q1	1984 Q2p	1984 May	1984 Junep	1984 Julyp	1984 Aug.f
Corporate securities - total[1]	8.91	8.36	6.60	5.23	6.76	7.86	9.50
Public offerings in U.S.	8.21	6.92	5.54	4.92	5.65	7.20	8.00
Stocks--total[2]	4.30	2.17	1.73	1.81	1.60	.90	1.50
Nonfinancial	3.07	1.11	1.20	1.38	1.00	.60	--
Utility	.80	.22	.32	.22	.40	.10	--
Industrial	2.27	.89	.88	1.16	.60	.50	--
Financial	1.23	1.06	.53	.43	.60	.30	--
Bonds--total[1]	3.91	4.75	3.81	3.11	4.05	6.30	6.50
By industry							
Nonfinancial	2.03	1.49	1.91	1.60	1.77	2.54	--
Utility	.95	.64	.45	.10	.70	.72	--
Industrial	1.08	.85	1.45	1.50	1.07	1.82	--
Financial	1.88	3.26	1.90	1.51	2.28	3.76	--
By quality[3]							
Aaa and Aa	1.13	.93	1.19	1.36	.85	1.38	--
A and Baa	1.57	1.59	1.33	.79	1.96	3.29	--
Less than Baa	.48	.61	.72	.53	.39	.60	--
No rating (or unknown)	.37	.36	.15	.22	.10	.09	--
Memo items:							
Equity based bonds[4]	.75	.28	.34	.22	.13	.08	--
Mortgage-backed bonds	.38	1.26	.42	.20	.74	.82	--
Floating rate or extendible notes	.46	.58	1.35	.84	1.85	2.16	--
Bonds sold abroad - total	.70	1.44	1.06	.31	1.11	.66	1.50
Nonfinancial	.33	.86	.42	.19	.38	.30	--
Financial	.37	.58	.64	.12	.73	.36	--

p--preliminary. f-- staff forecast.
1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Bonds categorized according to Moody's bond ratings. Excludes mortgage-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants attached where the warrants entitle the holder to purchase equity in the future.

Government Finance

Federal sector. The staff is projecting for the third quarter a combined deficit of about $40 billion, bringing the total for fiscal 1984 to $186.9 billion. In addition, the Treasury is expected to build up its cash balance over the quarter by $6-1/2 billion, which will leave an end-of-quarter balance of around $20 billion. The Treasury probably will meet these financing needs by borrowing $52 billion, net, from the public.

About $36 billion of the $49 billion in marketable borrowing will be raised in auctions of coupons. The remaining $13 billion of new cash will be raised in bill auctions, in contrast to the net paydown of bills last quarter. Although the Treasury is considering a number of innovations in debt management, these are not likely to affect market offerings until late in the quarter, at the earliest. A non-binding Senate resolution expressed disapproval of any use of Treasury-related bearer bonds. The outstanding public debt will approach its legal ceiling in late August and early September, but any changes in financing schedules should be slight; enough room for maneuver exists that the Treasury decided not to press for new legislation until Congress reconvenes after Labor Day.

Borrowing by federally sponsored credit agencies burgeoned in the second quarter and appears to be strengthening further in the third. Housing agencies are accounting for the bulk of this financing; the Federal Home Loan Banks are experiencing substantial demand by thrifts for advances, and portfolio acquisitions of mortgages by Fannie Mae remain robust. Several of the Home Loan Banks, most importantly the FHLB of San Francisco, have been pricing their advances attractively, at a cost to S&Ls roughly equivalent to the cost of large CD financing for the biggest institutions, which

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

	1984				
	Q2	Q3 f	July p	Aug. f	Sept. f
Treasury financing					
Combined surplus/deficit(-)	-28.3	-39.5	-18.1	-35.9	14.5
Means of financing deficit:					
Net cash borrowing from the public	31.2	51.8	24.2	24.9	2.7
Marketable borrowings/ repayments(-)	29.7	49.3	23.4	24.1	1.8
Bills	-7.0	13.3	4.1	12.9	-3.7
Coupons	36.7	36.0	19.3	11.2	5.5
Nonmarketable	1.5	2.5	.8	.8	.9
Decrease in the cash balance	.5	-6.5	-2.7	11.0	-14.8
Memo: Cash balance at end of period	13.6	20.1	16.3	5.3	20.1
Other[2]	-3.4	-5.8	-3.4	0.0	-2.4
Federally sponsored credit agencies, net cash borrowing[3]	9.2	11.0	3.4	4.1	3.5
FHLB	6.2	5.8	2.3	2.0	1.5
FNMA	1.9	3.8	.0	2.0	1.8
Farm Credit Banks	-.1	.3	.6	-.2	-.1
FHLMC	.5	.3	.1	.1	.1
SLMA	.7	.8	.4	.2	.2

p--preliminary. f--staff forecast.
1. Data reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

is a bargain for the smaller ones. Borrowing by the Farm Credit Banks on the whole remains sluggish, owing to depressed agricultural conditions. Sallie Mae issued $2 billion of 30-year zero-coupon bonds which raised about $75 million at an interest cost well below the Treasury's. The debentures were sold mainly in Japan and Europe, and were the first by a federal agency to be sold through foreign dealers since the withholding tax was repealed.

State and local sector. Issuance of tax-exempt bonds picked up in July; gross offerings totaled $7.2 billion, compared with a $5.7 billion monthly average over the first half of the year. Most of the July increase reflected a surge in the volume of single-family mortgage revenue bonds after the authority to issue these bonds was renewed by the Deficit Reduction Act of 1984. Such issues totaled $2-1/2 billion in July, and the volume appears to have slowed only moderately thus far in August. Offerings of

GROSS OFFERINGS OF SECURITIES BY STATE AND LOCAL GOVERNMENTS
(Monthly totals or monthly averages; billions of dollars)

			1984			
	1982	1983	Q1	Q2[e]	July[e]	August[f]
			Seasonally adjusted			
Total	10.30	10.39	9.35	8.40	9.40	8.70
Long-term	6.59	7.20	5.80	5.50	7.20	6.00
Short-term[1]	3.71	3.19	3.55	2.90	2.20	2.70
			Not seasonally adjusted			
Total	10.30	10.39	7.77	9.99	8.40	8.50
Long-term	6.59	7.20	5.01	6.09	6.20	5.50
Refundings	.36	1.17	.79	.89	.31	--
Total housing[2]	1.24	1.48	.44	.51	2.80	--
Short-term[1]	3.71	3.19	2.76	3.90	2.20	3.00

e—estimate. f—staff forecast.
1. These figures do not include tax-exempt commercial paper.
2. Primarily mortgage revenue bonds for home ownership and multifamily rental structures.

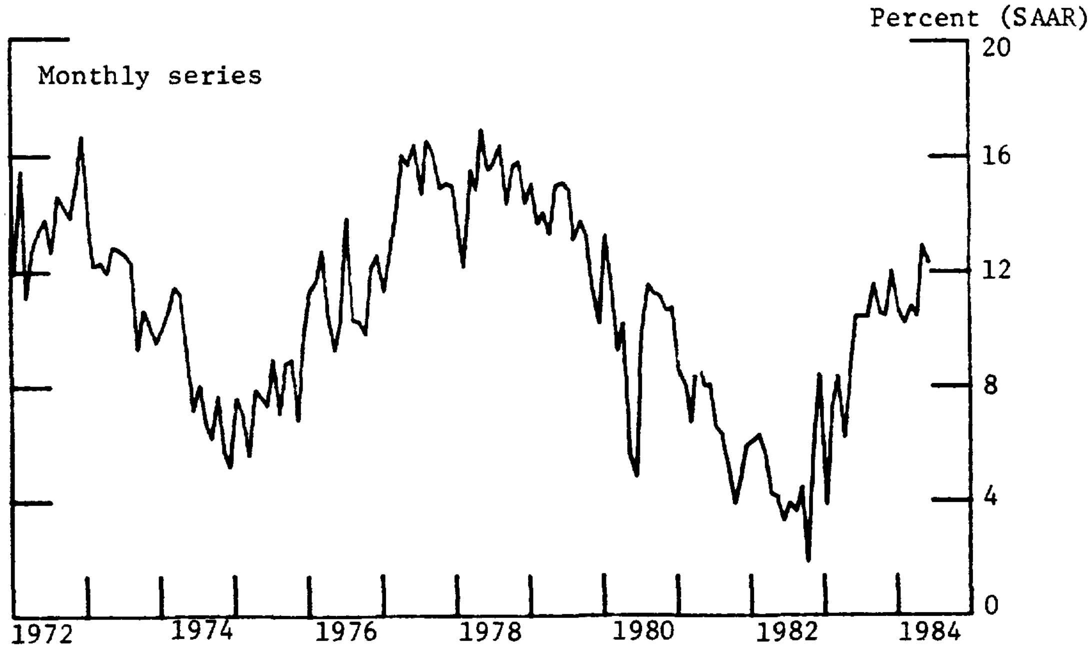
industrial development bonds also rose in July, as the recently passed legislation ended considerable uncertainty about new restrictions and procedures. While these bonds are typically difficult to identify, the staff estimates that roughly $1 billion were sold in July.

As the volume of private-purpose bonds increased in July, some issuers refrained from marketing debt, apparently fearing pressures on rates. As a result, total volume remained below expectations. Rates on tax-exempt bonds, which increased around 90 basis points in May and June, now have retraced those increases. The Bond Buyer 30-year revenue index stood at 10.29 percent in mid-August, about 60 basis points below the level just before the July FOMC. The decline in municipal bond rates has been about in line with the reduction in other long-term rates, and the ratio of tax-exempt to taxable yields has been little changed in recent weeks.

Mortgage Markets

Yields on secondary mortgage market instruments have declined 1/2 percentage points or more since the July FOMC meeting, and primary market rates also have begun to fall. On fixed-rate loans, contract and effective rates on new commitments for conventional home mortgages at S&Ls have declined only a little during the intermeeting period, but a sample of large mortgage companies reported a drop in the effective rates that they quote on FHA and conventional mortgages that was consistent with the falloff in secondary market yields. As price discounts on GNMA pass-through securities dropped to less than 1 point, the ceiling rate on VA-guaranteed loans was cut by 50 basis points to 13-1/2 percent, effective August 13.

GROWTH IN RESIDENTIAL MORTGAGE DEBT



In the secondary market for adjustable-rate mortgages (ARMs), required yields posted by FNMA for mortgages with annual interest rate adjustments have moved down 35 basis points since the last FOMC meeting. ARMs have continued to remain popular in the primary market; in early July, two-thirds of conventional home mortgages closed at major lenders--73 percent at S&Ls--contained adjustable-rate features. The record share garnered by ARMs was attributable in part to the relatively wide spread between interest rates on fixed- and adjustable-rate contracts,[1] as well as to the practice by some lenders of approving ARM loans on the basis of first year payment-to-income ratios, using the same standards as for fixed-rate loans.

1. The spread in average effective interest rates on new commitments for fixed-rate loans and for adjustable-rate loans with no interest rate cap was 202 basis points in early July, unchanged from the previous month and up one-half percentage point from the prevailing spread at the start of the year, based on FHLBB data.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS[1]
(Billions of dollars, seasonally adjusted)

	Mortgage commitments		Net change in mortgage assets		
	New (1)	Outstanding[2] (2)	Total (3)	Mortgage loans (4)	Mortgage-backed securities (5)
1983-June	14.6	44.4	6.7	3.8	3.0
July	16.2	46.6	8.2	5.5	2.7
Aug.	15.3	48.5	8.8	5.6	3.2
Sept.	15.8	49.8	8.0	5.5	2.5
Oct.	14.0	51.0	6.4	3.7	2.7
Nov.	15.2	53.8	6.5	5.6	1.0
Dec.	15.0	56.5	6.0	5.7	0.3
1984-Jan.	17.2	58.0	5.8	4.9	0.9
Feb.	18.1	60.4	6.1	6.0	0.1
Mar.	17.0	62.8	10.0	5.9	4.1
Apr.	16.8	63.0	10.0	7.5	2.6
May	19.5	66.1	10.6	8.4	2.2
June	18.1	66.8	10.7	7.9	2.8

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net changes in mortgage assets reflect adjustments to account for conversions of S&Ls to savings banks.
2. End of month. Includes loans in process.

NEW ISSUES OF FEDERALLY GUARANTEED MORTGAGE PASS-THROUGH SECURITIES
(Monthly averages, millions of dollars, n.s.a.)

Period	All issues	GNMAs	FHLMCs	FNMAs	Memo: FNMA and FHLMC swap issues
1983-Q1	7122	3841	1955	1326	2204
Q2	7368	4753	1392	1223	1880
Q3	7619	4835	1544	1240	2115
Q4	5733	3403	1673	657	1954
1984-Q1	4893	2745	887	1261	1744
Q2	4019	2343	1132	545	1491
June	4690	2268	1842	580	2309
July p	5271	2325	1413	1533	2713

p--preliminary.

Anticipating that delinquency rates will be higher on ARMs, several mortgage insurance companies have announced that, effective in August, their premiums on ARMs would be higher than on comparable fixed-rate loans.

New mortgage commitments at federally insured S&Ls were down 8 percent in June, possibly foreshadowing some slackening of lending growth in subsequent months. Scattered reports suggest a slowing of mortgage credit demand in July. However, during May and June, residential mortgage debt outstanding increased at its most rapid pace in more than 4-1/2 years (see chart on page III-13). It expanded at an average annual rate of 12-1/2 percent in these two months, and home mortgage debt grew nearly as rapidly.

Consumer Credit

Growth in consumer installment credit outstanding slowed in June to a 22 percent annual rate from the torrid 30 percent pace in May, but was about in line with growth earlier in the year. June's decline is consistent with slowing growth in retail sales that month, but for those items that rely heavily on credit, sales increases were substantially larger in June than in May. However, discrepancies between month-to-month changes in sales and credit growth are not uncommon. Installment lending at commercial banks is estimated to have advanced by about $3.8 billion in June--also down appreciably from the May increase and more in line with average monthly gains earlier in the year. Consumer loans of all types at commercial banks continued to grow rapidly in July.

Interest rates on auto loans at major captive finance companies continued to creep up in June, reaching 14.3 percent on new-car loans and 17.6 percent on used-auto loans. Even with the recent increases in consumer

CONSUMER INSTALLMENT CREDIT

	1982	1983	1984 Q1	1984 Q2	1984 May	1984 June
	----- Percent rate of growth, SAAR ------					
Change in outstandings--total	5.3	11.3	17.4	24.1	29.8	22.2
By type:						
Automobile credit	4.6	8.7	14.8	23.8	29.7	22.7
Revolving credit	6.8	15.5	25.1	31.2	41.1	22.2
All other[1]	2.6	10.1	16.3	21.3	24.8	21.9
	------- Billions of dollars, SAAR -------					
Change in outstandings--total	17.9	48.3	67.8	97.9	122.8	93.9
By type:						
Automobile credit	5.8	13.6	20.9	35.0	44.3	34.8
Revolving credit	4.4	12.9	19.0	25.0	33.8	18.8
All other[1]	7.8	21.7	27.9	37.9	44.7	40.3
By major holder:						
Commercial banks	4.4	23.4	41.5	55.7	72.8	46.0
Finance companies	4.5	5.0	0.0	9.2	15.7	16.2
All other	8.9	19.9	26.3	33.0	34.4	31.6
	-------- Annual percentage rate ---------					
Interest rates						
At commercial banks[2]						
New cars, 48 mos.[3]	16.83	13.92	13.32	13.53	13.53	n.a.
Personal, 24 mos.	18.65	16.50	16.16	16.35	16.35	n.a.
Credit cards	18.51	18.78	18.73	18.71	18.71	n.a.
At auto finance companies[4]						
New cars	16.15	12.58	14.11	14.15	14.17	14.33
Used cars	20.75	18.74	17.55	17.61	17.60	17.64

1. Includes primarily personal cash loans, home improvement loans, and sales finance contracts for non-automotive consumer durable goods.
2. Average of "most common" rates charged, on loans of specified type and maturity, during the first week in the middle month of each quarter.
3. Data for 1982 are for new-car loans at a 36-month maturity.
4. Average rate for all loans of each type made during the period, regardless of maturity.
n.a.--not available.

interest rates, the averages have remained well below their historic highs in late 1981 to mid-1982.

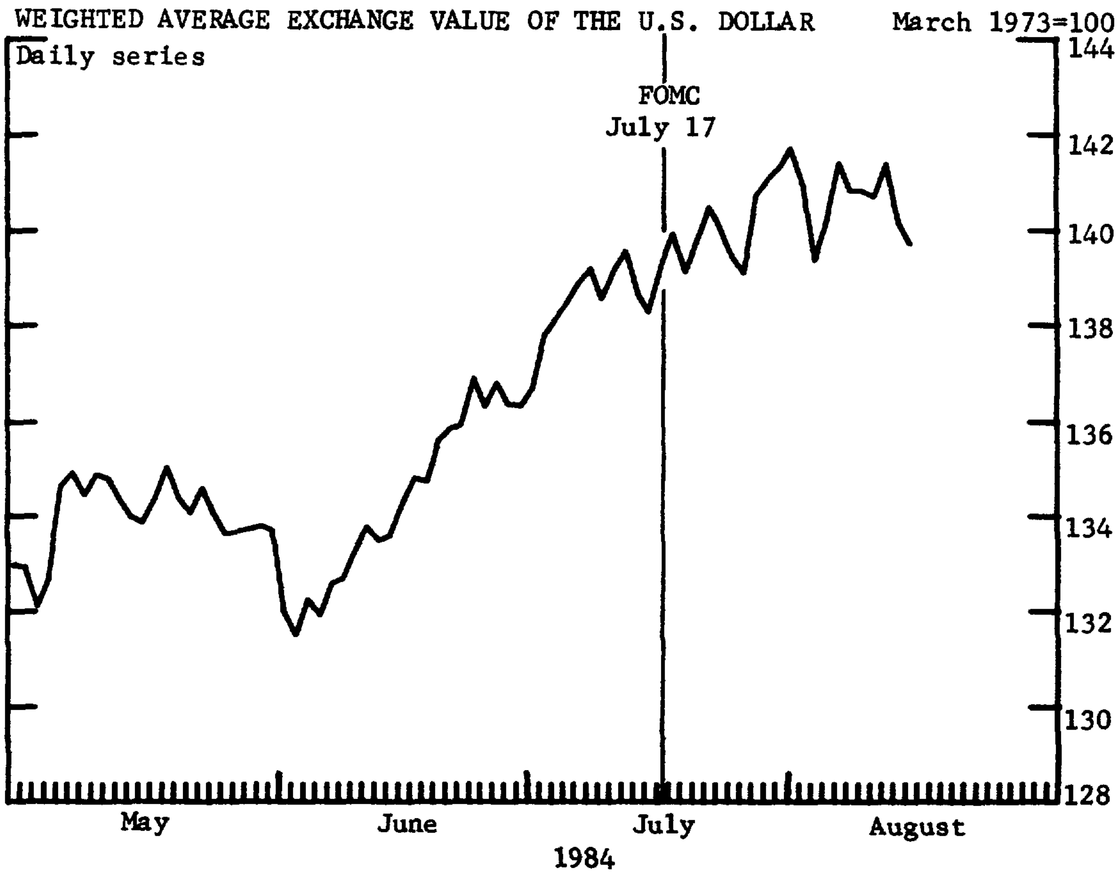
Consumer interest rates also are below usury ceilings in most states. On the whole, state usury ceilings appear to be a long way from becoming much of a constraint on the availability of consumer credit. For new-auto loans, the most common ceilings are between 18 and 20 percent; only three states have a ceiling of less than 18 percent. The most common ceilings for installment loans are 18 or 21 percent; a number of states have no ceiling and in only a few are the ceilings below 18 percent.

Foreign Exchange Markets

Since the last FOMC meeting, the trade-weighted value of the dollar has risen about 1 percent on balance, despite declines in longer-term dollar interest rates relative to foreign rates and little change in short-term interest-rate differentials. Market commentary suggests that a downward revision in expectations for U.S. inflation offset to some extent declines in nominal U.S. interest rates and thereby helped maintain demand for the dollar. The dollar also derived support from data for June that showed a second consecutive monthly trade deficit considerably smaller than the consensus expectation. The dollar continued to be buoyed by an impression among market participants that the United States is stronger economically and more stable politically than most other major countries -- particularly European nations, which in recent months have experienced labor strife, relatively weak growth, and symptoms of dissatisfaction with governing parties. The dollar moved up about 1-1/2 percent against the mark and other EMS currencies during the period, but gained only about 1/2 percent against the yen and sterling, and declined against the Canadian dollar.

The dollar, while rising on balance, has exhibited considerable volatility in the intermeeting period amid shifting opinion about the outlook for interest rates in the United States. Exchange markets have been sensitive to Federal Reserve testimony and to other indications of the stance of monetary policy. The dollar has declined when new data have offered some sign of a slowing in U.S. economic activity.

Chart 1



Sterling was aided early in the intermeeting period by settlement of the U.K. dockworkers' strike, which had generated concern that the ongoing coalminers' strike might broaden into a general political assault by labor. Late in the period, the pound derived support from indications that oil prices might cease to weaken. With the pound stronger and with growth of sterling M3 slowing, the Bank of England partially reversed the large increase in its money market dealing rates that it had implemented early in July. Major U.K. banks responded with similar partial reversals, cutting their base lending rates by 1 percentage point to 11 percent.

The Canadian dollar turned around and appreciated about 1-3/4 percent against the dollar as favorable interest-rate differentials and some good economic statistics drew demand to the Canadian currency. Toward the end of the intermeeting period, money market interest rates eased in Canada and several major Canadian banks reduced their prime rates 50 basis points to 13 percent, whereupon the Canadian currency stabilized against the dollar.

U.S. International Financial Transactions

Despite the large deficit in the U.S. current account, data currently available for the second quarter of 1984 show only small net capital inflows. (See table on U.S. International Transactions.) More complete information will be released by the Department of Commerce in late September, but it seems likely that the statistical discrepancy in the accounts will remain positive and high, obscuring the channels through which the U.S. current account deficit has been financed in the first half of 1984.

Official institutions reduced their asset holdings in the United States again in the second quarter. (See line 4.) The OPEC countries have decreased their holdings by over $5.0 billion since the beginning of the year. The G-10 countries also reduced their holdings in the United States in the second quarter,

. Partial information indicates only small net changes in official reserve holdings in the United States in July.

The recorded change in the net positions of banking offices in the United States swung from an inflow of $13 billion in the first quarter to an outflow of $2 billion in the second quarter. (See line 1.) This reversal was primarily the result of an increase in claims on unaffiliated banks (net) and on nonbanks in foreign countries. U.S. banks' liabilities to private nonbanks in foreign countries increased by over $4 billion in the second quarter, up from an increase of almost $3 billion in the first; Mexican residents alone increased their recorded holdings by $900 million.

The net claims of U.S. banking offices on affiliated foreign banks and IBFs were unchanged in July, after a sharp increase in June, perhaps indicating that the disruptions to funding patterns associated with the Continental crisis have lessened. (See International Banking Data Table, line 3.) The Eurodollar holdings of U.S. nonbank residents were also little changed in July. (See line 5.)

Private foreign net purchases of U.S. Treasury securities were very large in the second quarter and totaled $8 billion for the first half of 1984. (See line 3 of the Summary Table.) Almost a quarter of this total for the half-year was accounted for by the World Bank. The rest was largely accounted for by a few countries: Switzerland ($3 billion), Japan ($1 billion), the United Kingdom ($750 million), and the Netherlands Antilles ($300 million). Most of these purchases were not subject to the withholding tax on interest payments to foreigners, repealed at mid-year, either because the purchases were of short-term Treasury obligations (Switzerland), or because withholding tax rates were reduced to zero by bilateral treaties (the United Kingdom and Netherlands Antilles). It is unclear at this time how large an impact repeal of the withholding tax will have on future sales of Treasury debt to foreigners. Press reports indicate that Treasury Secretary Regan has decided not to issue bearer Treasury bonds to foreigners, but that a group headed by Salomon Brothers plans to sell CATs to foreigners in bearer form. The Senate passed a resolution on August 10 calling on the Treasury to halt the sale by dealers of any bearer securities backed by U.S. government securities. The Treasury is expected to issue new rules governing the sale of bonds to foreigners during the week of August 20th.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1981 Dec.	1982 Dec.	1983 Mar.	1983 June	1983 Sept.	1983 Dec.	1984 Mar.	1984 Apr.	1984 May	1984 June	1984 July 3/
1. Net Claims of U.S. Banking Offices (excluding IBFs) on Own Foreign Offices	8.2	33.7	49.2	43.7	42.3	38.8	34.0	30.8	27.7	31.0	n.a.
2. Net Claims of U.S. Banking Offices on Own IBFs 1/	11.8	16.2	14.6	12.8	10.5	5.2	4.1	4.2	2.1	4.4	n.a.
3. Sum of lines 1 and 2 of which:	20.0	49.9	63.8	56.5	52.8	44.0	38.1	35.0	29.8	35.4	35.7
(a) U.S.-chartered banks	23.6	40.3	53.7	50.0	47.1	40.4	35.8	34.0	30.5	33.6	33.6
(b) Foreign-chartered banks	-3.6	9.6	10.0	6.5	5.7	3.6	2.4	1.0	-0.7	1.8	2.1
4. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	13.2	15.7	16.4	16.8	16.8	18.6	18.6	19.5	19.9	19.8	19.6
5. Eurodollar Holdings of U.S. Nonbank Residents 2/	95.5	112.6	116.4	120.4	121.3	126.4	128.0	128.6	129.5	125.1	125.4

1. Corresponds to net claims of international banking facilities (IBFs) on all foreign residents, including all banks whether related or not, and all nonbanks.
2. Includes term and overnight Eurodollars held by money market mutual funds.
3. Through July 30.

Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an estimate constructed as the residual of line 3 minus line 2. Line 2 is data for the last Wednesday of the month for the sample of monthly IBF reporters. Line 3 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 4 is an average of daily data. Line 5 is the month-end value for data through September 1983. For dates after September 1983, the overnight portion is an average of daily data and the term portion is an average of Wednesday data.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1982 Year	1983 Year	1983 Q4	1984 Q1	1984 Q2	1984 Apr.	1984 May	1984 June
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-39.5	15.3	11.4	13.0	-1.9	-0.5	4.2	-5.7
a) with own foreign offices	-8.9	8.1	8.7	*	-0.1	2.8	-1.8	-1.2
b) all other	-30.6	7.8	2.6	13.0	-1.8	-3.3	6.0	-4.5
Securities								
2. Private securities transactions, net	-1.6	1.2	*	2.2	*	-0.1	-0.5	0.6
a) foreign net purchases (+) of U.S. corporate bonds	2.8	2.2	0.7	0.3	0.8	-0.1	0.3	0.5
b) foreign net purchases (+) of U.S. corporate stocks	3.6	6.4	0.4	1.2	*	0.4	-0.2	-0.1
c) U.S. net purchases (-) of foreign securities	-8.0	-7.4	-1.1	0.6	-0.8	-0.4	-0.6	0.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	6.5	8.3	1.7	1.4	6.6	2.5	2.6	1.6
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	2.9	5.2	6.4	-3.0	-1.8	0.4	-4.1	1.8
a) By area								
G-10 countries (incl. Switz.)	-12.7	6.4	1.7	2.3	-1.3	1.2	-1.1	-1.4
OPEC	6.9	-8.5	-1.5	-2.8	-2.6	-0.9	-2.3	0.5
All other countries	8.8	7.3	6.1	-2.5	2.1	0.1	-0.7	2.7
b) By type								
U.S. Treasury securities	5.7	7.0	2.6	-0.2	-1.0	0.1	-3.1	2.0
Other 2/	-2.7	-1.8	3.8	-2.7	-0.8	0.3	-1.0	-0.2
5. Changes in U.S. official reserve assets (+ = decrease)	-5.0	-1.2	-1.0	-0.7	-0.6	-0.1	-0.3	-0.1
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	4.8	-4.9	-1.6	-3.2	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	14.9	11.3	2.3	1.9	n.a.	n.a	n.a.	n.a.
8. Other capital flows (+ = inflow) 3/ 4/	-6.7	-2.9	-0.3	-5.7	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 4/	-9.2	-41.6	-17.2	-19.4	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy 4/	32.9	9.3	-1.7	13.5	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-36.5	-61.1	-19.4	-25.6	-26.3	-10.7	-7.5	-8.1

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 U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere.
4. Includes seasonal adjustment for quarterly data.
* Less than $50 million.

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

U.S. merchandise trade

The U.S. merchandise trade deficit in June was not substantially different from May; the resulting second-quarter deficit was close to the first-quarter rate.

Nonoil imports continued to decline in June from their peak April amount, but the average for the second quarter was still at a near-record level. The volume of nonoil imports in the second quarter was 13 percent higher than in the fourth quarter of last year, reflecting the continued strength of U.S. economic activity and the price competitiveness of foreign-made goods. By area, gains in nonoil imports since the fourth quarter of last year were greater from industrial countries than from other countries.

U.S. MERCHANDISE TRADE[1/]

	1983	1983		1984			
	Year	Q3	Q4	Q1	Q2	May	June
Value (Bil. $, SAAR)							
Exports	200.3	201.7	207.3	216.7	216.4	223.3	209.8
Agricultural	36.6	37.2	39.2	41.1	37.0	39.0	33.7
Nonagricultural	163.6	164.5	168.1	175.5	179.4	184.3	176.1
Imports	261.3	271.8	284.9	319.2	321.5	312.8	307.2
Oil	53.8	63.7	57.1	55.4	59.5	54.1	60.2
Non-oil	207.5	208.1	227.8	263.8	262.0	258.7	247.0
Trade Balance	-61.1	-70.0	-77.6	-102.6	-105.1	-89.5	-97.4
Volume (Bil 72$, SAAR)							
Exports							
Agricultural	16.3	16.3	16.2	17.0	15.1	15.8	13.6
Nonagricultural	57.3	57.6	58.8	60.9	62.0	63.8	60.7
Imports							
Oil	4.9	5.8	5.2	5.1	5.5	5.0	5.5
Non-oil	81.9	82.1	89.1	102.3	100.4	98.9	94.6

1. International transactions and GNP basis.

The increase in oil imports in the second quarter was almost entirely in volume in response to rising U.S. demand. There were only minimal reactions to the hostilities in the Persian Gulf--U.S. inventories increased somewhat but spot prices actually declined through July. A rise in the import price of oil in the second quarter reflected the higher spot prices recorded earlier in the year.

OIL IMPORTS

	1983	1983		1984			
	Year	Q3	Q4	Q1	Q2	May	June
Volume (mbd, SA)	5.20	6.17	5.53	5.40	5.76	5.23	5.83
Price ($/BBL)	28.42	28.29	28.30	28.05	28.26	28.27	28.18
Value (Bil. $, SAAR)	53.80	63.69	57.14	55.41	59.53	54.14	60.16

Nonagricultural exports increased in the second quarter as most major commodity categories were near or above levels reached in the first quarter. Since the fourth quarter of last year, most of the rise in nonagricultural exports has been to industrial countries, notably non-automotive exports to Canada.

Agricultural exports, particularly shipments of corn and soybeans, declined from first-quarter levels. Most of the decline was in volume. Higher export prices of soybeans in the second quarter, partly related to low stocks, discouraged demand from Western European and other buyers. Low stocks also contributed to rising corn export prices, which reduced demand from customers in developing countries. For wheat, the volume of shipments was at about the same level as in the first quarter; the major customers were Japan, China and the U.S.S.R. Because of large world supplies, export prices of wheat continued to decline. In July and early August the U.S.S.R. contracted for an unprecedented 8 million metric tons (MMT) of grain from the United States. Part of that amount, 1.9 MMT, was credited against the current agreement-year (which ends September 30), and the remainder (6.0 MMT) was carried forward and credited against the October 1984-September 1985 agreement year. Under the Long-term Grain Agreement, the U.S.S.R. agreed to purchase a minimum of 9 MMT and a maximum of 12 MMT of grain per year (October 1 through September 30). For the year ending September 30, 1984, purchases by the U.S.S.R. will total 12.9 MMT (the United States having authorized 0.9 MMT over the agreement level).

Foreign Economic Developments. The pace of the recovery in the major foreign industrial economies remains uneven. The picture has been complicated by industrial disputes in Germany and the United Kingdom which have depressed production in those countries in recent months. The sharp drop in German industrial production in June should be largely reversed following the settlement of the metalworkers' strike in July. However, there were indications of sluggish German activity even before the strike. French economic activity remains weak and a government reshuffle appears to have left the policy of economic austerity intact. Economic expansion in Italy has continued with real GDP rising by 3.2 percent (s.a.a.r.) in the first quarter. The Canadian recovery has also continued, but only at a pace about half that of the 7 percent real GNP growth rate recorded last year. Only in Japan, where industrial production is 12 percent above year-earlier levels, could the recovery now be called robust.

Inflation rates remain low or declining in the major industrial countries. Year-over-year consumer price inflation rates have been reduced by over a percentage point since the beginning of the year in Italy, France and Canada. The U.K. inflation rate has remained nearly unchanged at about 5 percent over this period. Consumer price inflation rates in both Germany and Japan are under 3 percent.

The Japanese external surplus has continued to expand. For the first half of 1984 Japan's current account surplus rate of $33 billion (s.a.a.r.) substantially exceeded that of the previous year. In contrast, Germany's cummulative current account surplus in the first half of this year was substantially lower than that recorded in the comparable

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

	Q4/Q4	Q4/Q4	1983		1984		1984						LATEST 3 MONTHS
	1982	1983	Q3	Q4	Q1	Q2	FEB.	MAR.	APR.	MAY	JUNE	JUL.	FROM YEAR AGO+
CANADA													
GNP	-5.0	7.1	1.9	1.2	.8	N.A.	*	*	*	*	*		5.8
IP	-10.8	16.1	4.2	3.7	.5	N.A.	-3.1	1.0	.8	-.4	N.A.		10.0
FRANCE													
GDP	1.4	.6	-.1	.6	.9	-.3	*	*	*	*	*		1.2
IP	-1.8	1.8	.8	.0	1.3	N.A.	-.8	1.5	-3.0	3.1	N.A.		2.1
GERMANY													
GNP	-1.6	2.9	-.1	1.3	1.2	N.A.	*	*	*	*	*		3.7
IP	-5.4	5.9	.5	2.2	1.1	-4.7	1.0	-3.8	-.9	2.1	-8.7		-1.1
ITALY													
GDP	-2.3	1.2	1.1	1.0	.8	N.A.	*	*	*	*	*		1.4
IP	-6.1	-1.0	1.8	1.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		-1.0
JAPAN													
GNP	3.8	3.6	1.5	.8	1.8	N.A.	*	*	*	*	*		5.3
IP	-2.7	8.6	2.6	2.9	3.2	2.6	3.3	-1.3	.8	2.4	.1		11.9
UNITED KINGDOM													
GDP	1.4	3.5	.6	1.7	1.1	N.A.	*	*	*	*	*		3.0
IP	.1	4.8	1.9	1.3	.1	-2.8	-.4	-1.1	-1.4	-1.1	.3		.4
UNITED STATES													
GNP	-1.5	6.3	1.7	1.5	2.4	1.8	*	*	*	*	*	*	7.6
IP	-7.5	15.0	5.1	2.5	2.7	2.0	.9	.5	.8	.4	.9	.9	11.8

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO.

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

	Q4/Q4	Q4/Q4	1983				1984		1984				LATEST 3 MONTHS
	1982	1983	Q1	Q2	Q3	Q4	Q1	Q2	APR.	MAY	JUNE	JULY	FROM YEAR AGO
CANADA													
CPI	9.7	4.6	.6	1.4	1.6	.9	1.2	.9	.2	.2	.4	N.A.	4.6
WPI	4.5	3.5	.7	1.5	.9	.4	1.6	1.2	.6	.0	.1	N.A.	4.1
FRANCE													
CPI	9.5	9.8	2.7	2.8	2.1	1.9	1.7	1.8	.6	.5	.5	N.A.	7.8
WPI	8.5	14.6	2.5	4.0	3.7	3.6	3.3	2.9	1.6	1.1	-.1	N.A.	14.3
GERMANY													
CPI	4.7	2.6	.5	.6	1.0	.5	1.0	.5	.2	.1	.3	-.2	2.7
WPI	3.1	.9	-2.0	.8	.9	1.2	1.7	.8	.4	-.2	.8	-.9	4.2
ITALY													
CPI	16.6	12.8	3.6	2.9	2.3	3.5	2.9	2.1	.8	.4	.6	.3	10.9
WPI	12.4	9.1	1.6	1.6	2.3	3.3	3.2	2.2	.8	.7	.3	N.A.	11.5
JAPAN													
CPI	2.9	1.9	-.1	.9	-.2	1.4	.9	.6	.2	.4	-1.0	.4	2.6
WPI	1.6	-3.3	-1.9	-1.0	.2	-.6	.1	-.1	-.1	.3	.0	N.A.	-.4
UNITED KINGDOM													
CPI	6.2	5.1	.5	2.0	1.3	1.1	.6	2.0	1.3	.4	.3	N.A.	5.1
WPI	6.5	5.6	1.4	2.0	.8	1.3	1.8	2.3	1.1	.4	.1	.2	6.2
UNITED STATES													
CPI (SA)	4.4	3.2	-.0	1.1	1.0	1.1	1.2	.9	.5	.2	.2	N.A.	4.3
WPI (SA)	3.6	.9	-.4	.2	.6	.4	1.1	.4	.1	-.0	-.0	.3	2.4

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TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES 1/
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

	1982	1983	1983 Q1	1983 Q2	1983 Q3	1983 Q4	1984 Q1	1984 Q2	1984 MAR.	1984 APR.	1984 MAY	1984 JUNE
CANADA												
TRADE	14.4	14.4	3.5	4.3	3.1	3.5	3.6	4.2	1.1	1.3	1.3	1.6
CURRENT ACCOUNT	2.1	1.4	.5	1.1	-.2	.0	-.1	N.A.	*	*	*	*
FRANCE												
TRADE 2/	-14.0	-5.9	-3.5	-1.7	-.6	-.2	-1.5	-1.1	-.3	-.5	.0	-.6
CURRENT ACCOUNT 2/	-12.1	-4.2	-3.9	-.9	.3	.3	-1.3	N.A.	*	*	*	*
GERMANY												
TRADE	20.9	16.4	5.1	4.1	3.7	3.4	4.3	N.A.	1.3	1.1	1.5	N.A.
CURRENT ACCOUNT (NSA)	3.5	4.1	2.1	.6	-2.3	3.7	.7	-.2	.7	-.2	1.1	-1.2
ITALY												
TRADE	-12.8	-7.8	-3.0	-1.4	-2.1	-1.3	-2.5	N.A.	-1.6	-.8	-1.2	N.A.
CURRENT ACCOUNT (NSA)	-5.7	.6	-1.9	1.1	1.5	-.1	N.A.	N.A.	*	*	*	*
JAPAN												
TRADE 2/	18.8	31.2	6.7	7.8	8.5	8.2	10.0	11.1	3.3	3.9	3.6	3.6
CURRENT ACCOUNT	6.9	21.0	3.5	6.1	5.7	5.5	7.2	9.2	2.4	3.6	2.5	3.1
UNITED KINGDOM												
TRADE	4.1	-.8	.3	-.7	-.4	-.0	-.1	-1.8	-.3	-1.2	-.4	-.2
CURRENT ACCOUNT 2/	9.6	4.4	2.4	-.1	1.2	.9	1.2	-.8	.1	-.8	-.1	.1
UNITED STATES												
TRADE	-36.5	-61.1	-9.3	-14.9	-17.5	-19.4	-25.6	-26.3	-9.3	-10.7	-7.5	-8.1
CURRENT ACCOUNT	-9.2	-41.6	-2.9	-9.6	-11.8	-17.2	-19.4	N.A.	*	*	*	*

1/ THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES AND PRIVATE AND OFFICIAL TRANSFERS.
2/ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.

* COMPARABLE MONTHLY OR QUARTERLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

period last year.

Industrial production in Japan rose in the second quarter by 2.6 percent (s.a.) to a level almost 12 percent above that of the corresponding period last year. Other indicators provide mixed signals about the pace of activity for the remainder of this year. The Economic Planning Agency's index of leading indicators declined in May, reflecting an increase in the inventory to sales ratio for raw materials, declines in new machinery orders and new passenger car registrations, and slower growth of M2. On the positive side, new housing starts increased and the number of business failures declined in May. In June, housing starts rose again, while new construction orders dropped.

Inflation in Japan remains low. Wholesale prices were essentially unchanged in the second quarter -- as in the first -- and the Tokyo consumer price index rose by less than 3 percent in the year ending in July. The current account surplus expanded in June, bringing the cumulative surplus this year to $32.8 billion (s.a.a.r.), compared with a $21 billion surplus in 1983. Most of this increase is accounted for by a rise in the trade surplus.

On July 31 the cabinet approved guidelines for FY1985 budget requests from ministeries and agencies. The guidelines imply an increase of almost 1 percent in ministerial budgets compared with a 1 percent rise in the guidelines and an actual change of about zero in FY1984. Most categories of ordinary expenditures will in principle be held to 10 percent below the level of the current fiscal year's budget, to be offset by increases in expenditures for defense, energy, foreign aid and public works spending.

A seven-week strike by German metalworkers ended in the first week of July. The strike had laid off up to 450,000 workers and had shut down the automobile industry. The terms of the settlement of the strike are likely to become a guideline for other contract negotiations. For the period from July 1984 to April 1985, the settlement provides for a 3.3 increase in weekly wages. From April 1985 to October 1986, weekly wages will increase another 2.2 percent and the average contracted work week will be reduced from 40 to 38-1/3 hours (4.2 percent).

The nearly 9 percent (s.a.) drop in industrial production in June appears to reflect mainly the impact of the metalworkers' strike. However, even before the strike there were indications that the pace of the recovery had slowed. Industrial production fell almost 4 percent (s.a.) in March and had not fully recovered by May. The rate of unemployment remained at 9.3 percent (s.a.) in July, only slightly below its most recent peak level.

Consumer prices declined by 0.2 percent (n.s.a.) in July, reducing the year-over-year consumer price inflation rate to only 2.2 percent. The current account moved back into deficit by $1.2 billion (n.s.a.) in June. For the first half of 1984 as a whole, the cumulative current account surplus was only $500 million, compared with a surplus of nearly $3 billion in the corresponding period last year.

In Canada, the economic expansion continued at the reduced pace evident in the first quarter where real GNP grew at an annual rate of 3.2 percent (s.a.) compared to 7.1 percent real growth in the year ending in the fourth quarter of 1983. In May, the level of industrial production remained fractionally above the first quarter average despite a monthly decline of .4 percent (s.a.). The broader GDP measure posted an increase of .5 percent (s.a.) in May. There are some signs that investment is beginning to grow after falling throughout much of 1983. Real investment grew at an annual rate of 4.5 percent (s.a.) in the first quarter largely on the strength of growth in machinery and equipment expenditures. A growth in new and unfilled orders in May, particularly for durable goods, suggests further advances in machinery and equipment purchases. The unemployment rate declined in June and July reaching 11.0 percent (s.a.) after steadily rising throughout the first five months of 1984. The current unemployment rate compares with a recession peak of 12.8 percent in December of 1982.

Inflation has continued to slow in the second quarter with consumer prices only 4.6 percent above their level in the second quarter of 1983. This compares with a 5.2 percent year-over-year rise in consumer prices in the first quarter. The accumulated trade surplus stood at $7.8 billion in June, virtually the same as that recorded in the comparable period last year.

Industrial production in France increased by 3 percent (s.a.) in May, completely reversing the sharp decline of the previous month. Despite this increase, May's industrial production figure was only 1.3 percent above its year-earlier level. Real GDP declined by 0.3 percent (s.a.) in the second quarter. The unemployment rate resumed its rise in June, moving up 0.1 percentage point to 9.9 percent (s.a.), after holding steady in May. Consumer prices increased by 0.5 percent in June as the year-over-year inflation rate declined slightly to 7.7 percent, still well above the government's 5 percent inflation target for 1984.

After a small surplus in May, the trade deficit swung back into deficit by $600 million (s.a.) in June. For the first half of 1984, trade was in deficit at a seasonally adjusted annual rate of $5.4 billion, only slightly below the $5.9 billion deficit rate for 1983 as a whole.

On July 17 French President Francois Mitterrand accepted the resignation of Pierre Mauroy as Prime Minister and appointed Laurent Fabius, formerly Minister of Research and Industry, to succeed him. Statements by the new Prime Minister, as well as the composition of his new Cabinet, suggest a continued commitment to the government's policy of relative macroeconomic austerity.

Industrial production in the United Kingdom registered a slight increase in June after falling in each of the five previous months. In the second quarter, industrial production stood 2.8 percent (s.a.) below its first quarter level. This fall was at least in part the result of the coal miners' strike which has been going on since mid-March. Although the production of coal has been substantially reduced, the effect of this strike on other industries has so far been limited. The resolution of the strike, however, does not appear imminent as negotiations between the miners union and the National Coal Board have again broken down.

In June, retail prices rose to a level 5.1 percent above that of a year earlier, a rate of inflation that has been about unchanged since the start of the year. The likelihood that the July increase in the general level of interest rates would lead to larger subsequent increases in the retail price index (through higher mortgage rates) has been reduced as the Bank of England, by lowering its shortest-term intervention rate from 12 to 11 percent in two steps on August 8 and 9, has signalled its willingness to accommodate some decline in interest rates. Exchange rate pressures had led the Bank of England to increase its intervention rates by about 3 percentage points (to 12 percent for the shortest-term rate) in early July.

The U.K. trade account was in deficit in June while the current account registered a small surplus. For the second quarter as a whole, the trade account deficit equalled $1.8 billion (s.a.); the corresponding current account deficit equalled $800 million (s.a.). The recent growth in consumption has led to a rise in imports while the strike-induced substitution of oil for coal for domestic use has reduced energy exports.

Real GDP in Italy rose by 3.2 percent (s.a.a.r.) in the first quarter despite a slight decline in real investment spending. Although no consumption data have been released, the increased optimism of consumers as reported in surveys suggests that private consumption spending played an important role in the first quarter gain. Net exports made only a very small contribution to GNP growth. Industrial production (n.s.a.) in the first 6 months of this year was about 3 percent above that for the same period last year.

Inflation as measured by the consumer price index remains at its lowest level since the early 1970's. In July, consumer prices advanced 0.3 percent (n.s.a.) to a level 10.5 percent above that of the previous July. This year-on-year increase is the lowest since 1973. The trade deficit in the first 5 months of this year was $4.5 billion (s.a.), compared with a \$3.6 billion deficit in the corresponding period of 1984.

On July 20 the Bank of Italy informed the commercial banks that they could not increase their foreign indebtedness beyond the level of June 30. The ostensible reason for this ceiling is to get better control over credit to the domestic economy. The Bank of Italy is reportedly concerned about the increase in imports and believes that it is being financed by foreign borrowing.

Debt Situation in Selected Developing Countries

Argentina and the Philippines continue to negotiate with the IMF, but Argentina has only begun to address its inflation problem, and the Philippine liquidity situation remains a stumbling block. Mexico and Brazil continue to show strong external sector performance; Brazil's recent inflation performance has shown no improvement. Venezuela and Mexico are both negotiating multi-year reschedulings of public sector debt with creditor banks.

Negotiations between Argentina and the IMF on the terms of an adjustment program that the IMF Management might approve are continuing. On August 11, the IMF and Argentina were reported to have reached "significant agreements" on "a series of fundamental objectives of the Argentine program". A new IMF mission will go to Argentina shortly to discuss a formal memorandum of understanding. However, full agreement may still be difficult to reach. In spite of the reported progress in Argentina's negotiations with the IMF, the banks' working committee for Argentina refused to rollover the fully secured $125 million credit granted at the end of June and falling due on August 15. The country's external liquidity position appears to have eased significantly during the first half of 1984, a period of seasonal export strength. In July, the Central Bank lifted limitations on the availability of foreign exchange, which should permit elimination of commercial arrears. At the end of July, Argentina repaid from its own funds the $300 million it had borrowed on March 30 from Brazil, Colombia, Mexico and Venezuela. The January-June trade surplus was $2.8 billion, about $900 million larger than in the same months of 1983. After lagging behind since February, the monthly rate of depreciation of the official exchange rate exceeded the monthly rate of price increase by more than 2 percentage points in July, providing a minor offset to the real appreciation of the peso over the previous 18 months. In the first half of 1984, real GDP was 5 percent higher than a year earlier.

Brazil registered a trade surplus of more than $7 billion during the first seven months of the year, compared with $3.6 billion over the first seven months of 1983, due largely to strong export growth. The current account deficit in the first half of this year was $400 million, compared with $3.3 billion in the same period last year. Prices increased by 10.3 percent in the month of July, not significantly different from the average during the first half of this year. Preliminary information suggests that Brazil met all of its IMF performance criteria in the second quarter, with the possibile exception of the nominal public sector borrowing requirement. Liquid cash reserves (including gold) have continued to grow and were reported to be $4.5 billion at the end of July.

Mexico ran a trade surplus in January-May of $6.4 billion, $600 million more than in the same period of 1983. Imports were 35 percent higher, but non-oil exports were 50 percent higher. The spread between the "free" market exchange rate in Mexico and the rate in U.S. markets has contined to narrow since early July and was less than 3 percent in early August. The annualized rate of increase in the CPI in the first seven months of 1984 was 66.5 percent, down from about 96 percent in the same period of 1983. The slowing of inflation was especially notable in the May-July, when the annualized rate was 49.4 percent. As a result, the effective annual yield on short-term deposits, which at 61.6 percent has remained virtually unchanged in nominal terms since early April, turned positive in real terms. Negotiations with bank creditors on a multi-year rescheduling of public sector debt are continuing.

On July 25 Venezuela and its creditor banks renewed discussions on rescheduling public sector external debt, after IMF "endorsement" of the Venezuelan adjustment program and progress in the implementation of a plan to reduce private sector external interest arrears. The Venezuelans asked for a rescheduling of $22 billion of public sector external debt over 15 years at LIBOR plus 7/8. Annual debt service payments would be fixed at $4.2 billion, with the amount amortized determined by the level of interest rates. Banks have made a counter-proposal, offering to reschedule maturities thorugh 1985, totaling about $16 billion, over 9 to 10 years with two years' grace at LIBOR plus 1-1/2 or prime plus 1-1/4. Banks have reportedly rejected the fixed debt service concept. Talks are continuing.

In the Philippines, the economic situation remains serious. The inflation rate in June (over June 1983) was 52 percent, up from the 40 percent rate recorded in May. An IMF mission spent two weeks in Manila in July but no agreement on a stabilization program was reached. On July 23 Banco Filipino--one of the 15 largest banks in the Philippines--closed its doors. In order to permit the bank to reopen, the Central Bank provided a loan of $167 million, which will make it virtually impossible for the country to meet the liquidity-reduction targets suggested by the IMF. Prime Minister Virata said on August 7 that agreement on an IMF program may not be reached until as late as October.