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Confidential (FR) Class II FOMC

July 1, 1981

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rate)		
Civilian labor force	May	6-5-81	107.4	7.7	6.5	2.2
Unemployment rate (%) 1/	May	6-5-81	7.6	7.3	7.3	7.6
Insured unemployment rate (%) 1/	May	6-5-81	3.2	3.3	3.2	4.3
Nonfarm employment, payroll (mil.)	May	6-5-81	91.5	-.2	-.8	1.1
Manufacturing	May	6-5-81	20.4	-1.6	.7	.6
Nonmanufacturing	May	6-5-81	71.1	.2	-1.2	1.3
Private nonfarm:						
Average weekly hours (hr.) 1/	May	6-5-81	35.3	35.4	35.3	35.1
Hourly earnings ($) 1/	May	6-5-81	7.17	7.13	7.06	6.57
Manufacturing:						
Average weekly hours (hr.) 1/	May	6-5-81	40.2	40.1	39.8	39.3
Unit labor cost (1967=100)	May	6-30-81	206.9	5.8	4.9	6.9
Industrial production (1967=100)	May	6-16-81	152.8	3.9	3.4	6.1
Consumer goods	May	6-16-81	150.0	5.6	8.4	5.3
Business equipment	May	6-16-81	183.3	7.2	11.2	6.6
Defense & space equipment	May	6-16-81	101.4	4.8	4.8	4.3
Materials	May	6-16-81	153.8	3.1	-1.0	6.6
Consumer prices all items (1967=100)	May	6-23-81	268.4	8.1	6.8	9.8
All items, excluding food & energy	May	6-23-81	252.7	13.4	8.7	9.5
Food	May	6-23-81	271.0	-2.7	.6	8.7
Producer prices: (1967=100)						
Finished goods	May	6-5-81	268.3	4.5	9.8	10.5
Intermediate materials, nonfood	May	6-5-81	309.8	7.4	12.1	11.0
Crude foodstuffs & feedstuffs	May	6-5-81	256.6	-26.5	-10.9	7.5
Personal income ($ bil.) 2/	May	6-17-81	2,367.2	7.0	8.5	12.0
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	May	6-30-81	84.1	-.2	2.3	25.0
Capital goods industries	May	6-30-81	29.6	5.0	12.6	18.9
Nondefense	May	6-30-81	23.7	1.3	15.0	20.9
Defense	May	6-30-81	5.9	22.9	4.0	11.5
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Apr.	6-30-81	1.37	1.36	1.35	1.49
Manufacturing	May	6-30-81	1.57	1.57	1.55	1.72
Trade	Apr.	6-15-81	1.20	1.19	1.18	1.31
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	May	6-30-81	.587	.588	.590	.588
Retail sales, total ($ bil.)	May	6-11-81	85.9	.2	-1.1	13.1
GAF 3/	May	6-11-81	18.3	-.1	.4	10.4
Auto sales, total (mil. units.) 2/	May	6-3-81	7.9	-1.4	-22.6	9.4
Domestic models	May	6-3-81	5.7	-.5	-22.1	10.0
Foreign models	May	6-3-81	2.2	-3.7	-23.9	7.9
Plant & Equipment expen. ($ bil.) 4/						
Total nonfarm business	1981	6-10-81	320.51	--	--	8.4
Manufacturing	1981	6-10-81	127.88	--	--	10.4
Nonmanufacturing	1981	6-10-81	192.62	--	--	7.1
Capital Appropriations, Mfg.	1981-Q1	6-2-81	29,330	16.9	--	2.1
Housing starts, private (thous.) 2/	May	6-16-81	1,152	-14.0	-5.2	22.8
Leading indicators (1967=100)	May	6-30-81	135.2	-1.8	-.4	9.9

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce June 1981 Survey.

Economic activity has shown little, if any, advance in recent months following the surge early in the year. This slowing was evident in most major sectors of final demand. Unit auto sales continued through mid-June at the sluggish pace that has prevailed since the termination of the rebates, and real consumer spending on nonauto items declined in both April and May. Housing starts fell sharply in May, while real business spending apparently receded in the spring following its earlier strong advance. Broad measures of inflation registered smaller increases in April and May than in the first quarter, mainly because of unchanged or declining gasoline and food prices.

Industrial Production

Gains in industrial production have been considerably less so far this year than the brisk increases in the second half of 1980. Output rose only 0.3 percent in May, following essentially no change in April. More than half of the May increase was due to a 7 percent rise in automobile assemblies to a 7.3 million unit annual rate. Production of business and defense equipment continued to expand in May, while output of construction supplies fell. In June, even with the boost to output resulting from the settlement of the coal miners' strike and the further rise in automobile assemblies to a 7.4 million unit rate, industrial production apparently declined slightly.

Employment

The small gains in industrial production in recent months have been accompanied by continued sluggishness in factory hiring. Employment

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

	1980	1981			
	Q4	Q1	Mar.	Apr.	May
	--annual rate--		----monthly rate----		
Total	21.3	7.4	.5	.1	.3
Final products	12.2	3.6	.9	.7	.5
Consumer goods	13.1	.0	.9	.7	.5
Durable	39.9	-2.6	3.2	.5	2.0
Nondurable	4.7	1.0	.1	.7	-.1
Business equipment	11.2	10.3	1.2	.9	.6
Defense and space eq.	10.9	3.9	.6	.2	.4
Construction supplies	32.2	14.1	.2	-.8	-.7
Materials	34.4	12.0	.1	-.6	.3
Durable goods	48.4	17.5	1.1	.0	.4
Nondurable goods	38.2	8.4	-1.1	.8	.6
Energy materials	-0.2	3.8	-.4	-5.0	-.6

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80	1980	1980	1981		
	High	Low	Q4	Q1	Apr.	May
Manufacturing industries	87.2	74.9	79.2	79.9	80.0	80.1
Primary processing	90.1	70.9	79.4	81.0	80.6	80.5
Advanced processing	86.2	77.1	79.1	79.4	79.7	79.9
Motor vehicles & pts.	94.5	51.0	61.4	58.6	62.5	65.3
Materials producers	88.8	73.7	80.0	81.7	80.9	81.0
Durable goods mats.	88.4	68.0	75.8	78.4	78.7	78.8
Raw steel	100.7	55.3	85.0	87.5	86.2	86.0
Nondurable goods mats.	90.9	76.8	85.0	85.9	85.4	85.7
Energy materials	88.8	83.1	84.6	84.9	80.3	79.7

in the manufacturing sector fell slightly in May, following several months of small increases. The factory workweek edged up in May to a level 1/4 hour above the fourth quarter average. Construction jobs with weakness in all major categories, fell further in May, and employment in this sector was no higher than at last July's trough. But sustained hiring at service establishments and a rebound in employment in the trade sector to its February level balanced the decreases in the goods-producing industries in May, and nonfarm payroll employment in the aggregate remained at its April level.

Total household employment, which recently has been increasing faster than the payroll series, rose 260,000 in May. But unemployment also jumped, after holding steady for several months, and the overall jobless rate reached 7.6 percent--the same as the peak rate of last year. Most of the rise in May unemployment was reported among persons who lost or voluntarily left their last job, rather than among new entrants to the labor force. However, this rise in job terminations has not been confirmed by weekly labor market data for June. Initial claims for unemployment insurance through late June were not significantly higher than in April and May, and in the auto industry the number of workers on indefinite layoff--while still very high by historical standards--continued to trend down.

Personal Income and Consumer Spending

Personal income rose at only a 7 percent annual rate in nominal terms in April and May, compared with a 12 percent rate in the first quarter. Wage and salary disbursements were particularly sluggish during

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

	1979	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
	-Average monthly changes-						
Nonfarm payroll employment[2]	176	37	247	193	52	-215	-16
Strike adjusted	182	31	220	194r	70	-48	15
Manufacturing	1	-56	89	28	21	44	-28
Durable	4	-46	68	21	26	37	-21
Nondurable	-3	-10	21	7	-5	7	-7
Construction	20	-9	35	2	-4	-73	-126
Trade	40	16	6	93	32	-109	80
Finance and services	74	74	86	61	38	76	101
Private nonfarm production workers	112	-5	179	143	42	-147	-14
Manufacturing production workers	-11	-63	74	20	14	31	-13
Total employment[3]	172	-42	34	377	485	564	259
Nonagricultural	174	-48	36	416	490	377	369

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)

	1979	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
Total, 16 years and older	5.8	7.1	7.5	7.4	7.3	7.3	7.6
Teenagers	16.1	17.7	18.3	19.1	19.1	19.1	19.5
20-24 years old	9.0	11.5	12.1	11.8	11.7	12.1	12.9
Men, 25 years and older	3.3	4.7	5.0	4.8	4.7	4.6	4.8
Women, 25 years and older	4.8	5.5	5.9	5.8	5.9	5.6	5.9
White	5.1	6.3	6.6	6.6	6.5	6.5	6.8
Black and other	11.3	13.2	14.1	13.2	13.7	13.2	13.6
Fulltime workers	5.3	6.8	7.3	7.1	7.1	6.9	7.3
White collar	3.3	3.7	3.9	3.9	3.9	4.0	4.1
Blue collar	6.9	10.0	10.7	10.0	9.8	9.6	10.0

PERSONAL INCOME
(Based on seasonally adjusted data)

	1979	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
	- - Percentage changes at annual rates[1] - -						
Total personal income	12.3	11.0	14.3	11.8	11.5	6.7	7.0
Wage and salary disbursements	10.8	9.0	17.8	13.5	8.3	4.1	5.3
Private	11.6	9.2	18.3	15.3	9.0	4.3	5.6
Disposable personal income							
Nominal	11.7	10.9	12.8	11.1	11.6	6.1	6.1
Real	2.0	.8	2.9	3.0	1.4	.1	n.a.
	- - Changes in billions of dollars[2] - -						
Total personal income	18.3	18.7	23.6	21.3	22.2	13.0	13.7
Wage and salary disbursements	10.3	9.8	18.1	13.9	10.0	5.0	6.4
Private	8.9	8.1	14.8	12.7	8.8	4.2	5.5
Manufacturing	2.0	2.3	5.8	3.2	2.2	3.9	3.5
Other income	8.9	9.6	6.4	11.0	12.5	8.3	7.4
Transfer payments	2.8	4.1	.4	2.4	3.5	.5	1.2
Less: Personal contributions for social insurance	.9	.8	.9	3.6	.4	.1	.2
Memorandum:							
Personal saving rate[3]	5.2	5.6	5.1	4.6	4.9	5.0	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

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

	1980	1981				
	Q4	Q1	Feb.	Mar.	Apr.	May
Total sales	3.3	4.9	1.6	.9	-2.1	.2
(Real)[1]	.7	2.9	.9	.1	-2.1	n.a.
Total, less autos and nonconsumption items	3.3	3.5	.0	1.4	.0	.0
GAF[2]	3.3	3.1	1.5	-.4	.9	-.1
Durable goods	3.4	8.5	4.6	.4	-7.6	.6
Automotive	1.6	10.0	9.0	.1	-11.2	.8
Furniture & appliances	3.1	4.4	-3.2	.2	-1.6	-.2
Nondurable goods	3.2	3.3	.2	1.2	.5	.0
Apparel	1.4	5.1	2.0	-1.9	-.1	.4
Food	2.6	2.1	.2	2.1	1.0	.4
General merchandise[3]	4.1	1.8	3.1	.0	2.2	-.2
Gasoline	2.5	4.9	1.2	.2	-1.0	.4

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release. Series is not yet available for May.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

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

	1980		1981				
	Q3	Q4	Q1	Mar.	Apr.	May	June
Total	8.8	9.0	10.0	10.3	8.1	7.9	n.a.
Foreign-made	2.3	2.5	2.7	2.6	2.3	2.2	n.a.
U.S.-made	6.5	6.6	7.3	7.7	5.8	5.7	5.7[1]
Small	3.2	3.3	3.9	4.1	2.8	2.9	n.a.
Intermediate & standard	3.3	3.3	3.4	3.5	2.9	2.8	n.a.

Note: Components may not add to totals due to rounding.
1. First 20-days.

the spring, due to the strike by coal miners and the leveling off of payroll employment in other sectors. The nominal income gains over recent months have been matched by inflation, and real disposable income has been stagnant since March.

Consumer spending has slowed slightly more than income, in the past few months, as households have sought to build savings following a 29-year low in the saving rate during the winter. Retail sales excluding automobiles and nonconsumption items in nominal terms have been flat since their strong advance in March. Sales in most major categories of stores registered only small changes in May. Purchases at stores in the GAF grouping, which sell mainly discretionary items, were about unchanged after a large gain in April, as slight declines at general merchandisers and furniture and appliance dealers balanced a small increase at apparel stores.

Auto sales continued weak into mid-June. Sales of domestically produced automobiles averaged 5-3/4 million units in the first 20 days of June. This was in line with the average pace since the termination of the rebates in late March and still below the 6-1/2 million unit rate that had been sustained for several months preceding the rebates. Domestic auto stocks rose to 1.4 million units at the end of May, equivalent to a 75 days' supply at that month's sales rate, and likely were substantially higher at the end of June, since production continued to exceed sales. Purchases of imported autos edged down to a 2.2 million unit annual rate in May--the lowest since last summer.

The weakness in household spending is consistent with the subdued buying intentions reported in recent consumer surveys. Appraisals of

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

	1980			1981			
	Annual	Q3	Q4	Q1	Mar.	Apr.	May (p)
All units							
Permits	1.19	1.37	1.32	1.18	1.15	1.19	1.18
Starts	1.29	1.39	1.54	1.39	1.30	1.34	1.15
Single-family units							
Permits	.71	.83	.79	.69	.68	.69	.66
Starts	.85	.96	1.00	.87	.84	.90	.75
Sales							
New homes	.53	.60	.54	.51	.51	.44	.50
Existing homes	2.88	3.06	3.00	2.54	2.49	2.61	2.51
Multifamily units							
Permits	.48	.54	.53	.49	.48	.50	.53
Starts	.44	.43	.53	.52	.46	.44	.40
Mobile home shipments	.22	.22	.25	.25	.26	.27	n.a.

buying conditions for consumer durables and houses have remained remained relatively depressed throughout the spring, according to both the University of Michigan and Conference Board surveys, apparently reflecting continued concern over credit conditions and the high prices of these items. Composite indexes of consumer confidence remained near their most recent recovery highs in June; the Conference Board survey revealed a further improvement in attitudes, while the Michigan index turned down, following several months of increases in both surveys.

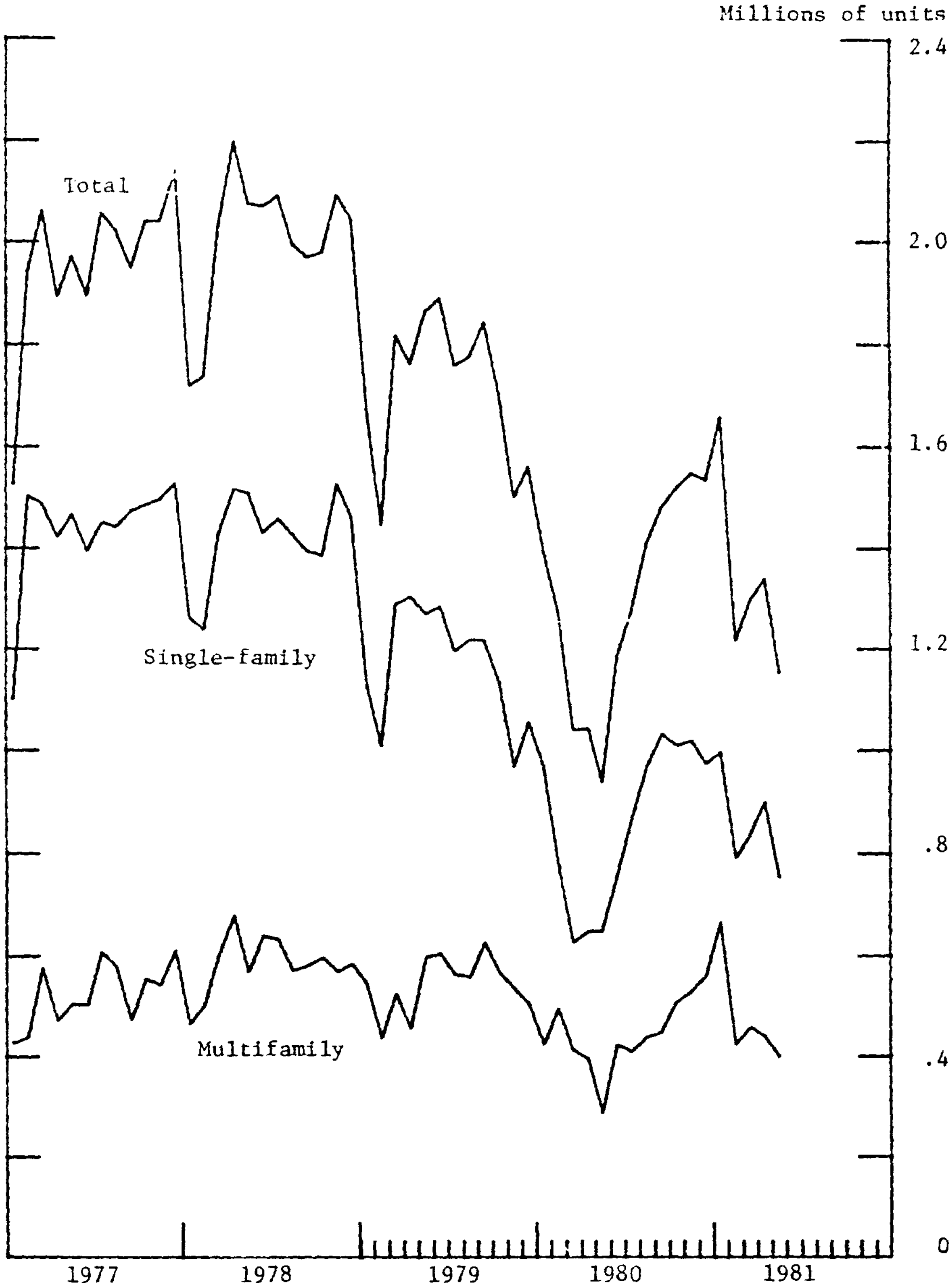
Residential Construction

Housing activity has weakened markedly in recent months, reflecting the tightening of financial conditions since last fall. Private housing starts fell 14 percent in May to an annual rate of 1.15 million units, a rate 25 percent below that in the fourth quarter of 1980. Starts of both a multifamily and single-family units were at reduced levels in May, with a somewhat sharper decline in the single-family sector. Multifamily activity continues to be supported by the sustained demand for condominium and cooperative apartments. In the first quarter of 1981, starts of these "for sale" units, which comprised almost half of the total in the multifamily sector, were a third above a year earlier.

The decrease in new building activity in May followed a general overall deterioration in home sales. Sales of new houses in May, despite a sharp upturn that month, were down a fifth since last summer. Purchases of existing homes, which also have been trending down, fell an additional 4 percent in May.

The average price of a new house sold in May was 15 percent above a year earlier, while the average price of an existing house sold was 10 percent higher. These May figures were boosted by the transitory

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



drop in house prices a year earlier; year-to-year increases in recent months generally have been substantially less than those recorded during the past several years. Moreover, recent trends in transaction prices probably understate the effective deceleration in house price inflation. When compared with the price trends of the past few years, prices lately have increasingly incorporated compensatory payments to sellers for concessionary financing arrangements.

Business Fixed Investment

Capital spending apparently fell in real terms during the spring, following the vigorous growth in the first quarter. In the equipment area, shipments of nondefense capital goods in real terms in May were 3 percent below the first quarter average, and business purchases of motor vehicles have been sharply depressed since March. In the nonresidential structures area, real outlays on new construction declined 1.3 percent in April to a level slightly below the advanced first-quarter average. The only sign of capital spending strength was for oil well drilling; drillings in April and May were 20 percent above the Q1 average.

Current backlogs of unfilled orders should sustain equipment spending over the next few months. But with constant-dollar new orders for nondefense capital goods weak in April and May, some spending declines could occur later in the year. Activity in the nonresidential construction area likely will weaken further in coming months; contracts dropped sharply in April and May, continuing the trend of the first quarter, and in real terms are little higher than they were last summer.

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

	1980		1981			
	Q3	Q4	Q1	Mar.	Apr.	May
Nondefense capital goods shipments						
Current dollars	2.1	3.4	2.8	4.4	-1.2	3.1
Constant dollars[1]	2.0	-.9	4.0	.3	-2.7	.4
Addenda: Sales of heavy-weight trucks (thousands)	290	230	250	230	270	220
Nonresidential construction						
Current dollars	-4.8	3.0	8.2	1.2	-.4	n.a.
Constant dollars	-7.0	2.1	6.7	.6	-1.3	n.a.
Addenda: Oil and gas well drilling (millions of feet)	25.2	26.5	24.7	27.1	32.3	27.8

1. FRB staff estimate.

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

	1980		1981			
	Q3	Q4	Q1	Mar.	Apr.	May
Nondefense capital goods orders						
Current dollars	.2	3.7	7.4	15.5	-1.8	1.3
Constant dollars	.6	.8	4.8	13.0	-3.6	-.3
Machinery						
Current dollars	8.9	6.0	6.4	2.2	-1.4	1.6
Constant dollars[1]	5.7	3.9	3.3	1.6	-2.7	1.8
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	6.37	6.10	6.00	5.88	5.98	5.76
Machinery	4.21	4.16	4.01	3.96	4.06	3.98
Contracts for nonresidential plant						
Current dollars	55.0	26.7	-25.2	34.9	-26.8	-9.3
Constant dollars	62.0	25.3	-26.2	34.5	-26.7	-9.5

1. FRB staff estimate.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

		Planned for 1981						
		Commerce Department[1]			McGraw-Hill[2]		Merrill Lynch[2]	
	1980	Dec. 1980	Feb. 1981	May 1981	Fall 1980	Spring 1981	Fall 1980	Spring 1981
All Business	9.3	10.8	10.2	8.4	11.9	12.0	7.0	10
Manufacturing	17.4	14.1	12.1	10.4	14.6	15.0	10.6	12
Durables	15.4	13.3	12.8	8.6	4.7	10.3	4.3	10
Nondurables	19.5	14.9	11.4	12.3	23.8	19.8	16.2	14
Nonmanufacturing	4.7	8.7	8.9	7.1	9.4	10.1	4.0	9
Mining	18.7	18.8	17.5	25.2	13.0	5.6	2.6	14
Transportation	-2.1	8.2	6.5	.4	5.4	8.7[5]	1.0	14
Utilities	4.4	8.7	8.0	5.1	8.6	13.1	3.1	7
Trade and Services	3.2	6.8	6.3	4.2	11.8[3]	10.7	5.1	5[6]
Communications and other	6.2	9.5	13.4	11.1	8.5[4]	n.a.	5.6	23[4]

1. Results are adjusted for systematic bias. Without this adjustment, the Commerce results would have been 8.6 percent in December, 8.6 percent in February, and 7.1 percent in May.
2. Not strictly comparable to the Commerce reports because of coverage differences.
3. Contains commercial businesses only.
4. Contains the communication industry only.
5. Includes the communication industry.
6. Consists of commercial, business, and other industries.

RELIABILITY OF THE SPRING SURVEYS
(Percent change from prior year)

Year	Anticipated Change McGraw-Hill	Anticipated Change Merrill Lynch	Anticipated Change Commerce (May)	Actual Change
1974	19.5	19.2	12.2	12.7
1975	5.5	6.0	1.6	.3
1976	12.9	7.3	7.3	6.8
1977	17.5	16.4	12.3	12.7
1978	17.3	15.4	11.2	13.3
1979	15.7	15.0	12.7	15.1
1980	12.2	11.4	8.7	9.3[1]

1. Based on the rebenchmarked Commerce Survey and not strictly comparable to other data.

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

	1979	1980 Q2	1980 Q3	1980 Q4	1981 Q1	1981 Mar.(r)	1981 Apr.(p)	1981 May(p)
Book Value Basis								
Total	47.4	33.8	27.5	13.7	42.7	19.1	33.0	n.a.
Manufacturing	29.9	20.4	-.1	3.5	35.8	26.6	18.7	17.0
Wholesale	10.3	10.9	18.5	10.3	0.0	-6.3	5.7	n.a.
Retail	7.2	2.4	9.1	-.1	6.8	-1.2	8.6	n.a.
Constant Dollar Basis								
Total	7.2	.5	-1.9	-5.1	-1.3	-2.7	4.6	n.a.
Manufacturing	6.8	-.5	-5.2	-3.6	4.6	3.9	-.5	n.a.
Wholesale	.4	1.6	1.9	.3	-1.6	-1.5	1.3	n.a.
Retail	-.1	-.6	1.3	-1.9	-4.3	-5.1	3.9	n.a.

Details may not add to total due to rounding.

INVENTORIES RELATIVE TO SALES

	1979	1980 Q2	1980 Q3	1980 Q4	1981 Q1	1981 Mar.(r)	1981 Apr.(p)	1981 May(p)
Book Value Basis								
Total	1.41	1.50	1.45	1.38	1.36	1.36	1.37	n.a.
Manufacturing	1.52	1.71	1.64	1.55	1.57	1.56	1.57	1.57
Wholesale	1.17	1.21	1.17	1.12	1.08	1.09	1.08	n.a.
Retail	1.44	1.43	1.40	1.35	1.31	1.29	1.33	n.a.
Constant Dollar Basis								
Total	1.63	1.76	1.72	1.66	1.64	1.63	1.66	n.a.
Manufacturing	1.87	2.10	2.04	1.96	1.97	1.96	1.97	n.a.
Wholesale	1.41	1.46	1.45	1.39	1.37	1.33	1.39	n.a.
Retail	1.44	1.47	1.44	1.41	1.36	1.36	1.39	n.a.

Annual ratios are averages of monthly ratios. Quarterly ratios are end-of-quarter inventories to average monthly sales in the quarter.

Investment surveys also point toward sluggish real capital spending over the remainder of the year. The Commerce Department May survey of fixed capital spending anticipations indicated that businesses plan to increase spending an average of 8.4 percent in nominal terms this year--almost 2 percentage points less than the plans reported in the February survey. Given the 18 percent annual rate rise in outlays in the first quarter, this seems to leave little room for further advances over the remainder of the year.

Inventory Investment

Manufacturers' inventory investment remained moderate in May. The book value of manufacturers' stocks rose at an annual rate of $17 billion, about the same as in April. These recent increases were considerably below those recorded earlier in the year when producers rebuilt stocks drawn down during the second half of 1980. Manufacturers' shipments rose 0.7 percent in May, and the stock/sales ratio remained at 1.57.

Retail and wholesale trade inventories rose at a $5.1 billion annual rate in constant dollars in April, after five months of liquidation. The April rise largely was due to the beginning of the second quarter buildup of automotive stocks. Inventories at merchant wholesalers rose at a $1.3 billion rate, as runups in auto products, machinery, and building materials were partially offset by some liquidation in nondurable merchandise.

Government Sector

The federal government unified budget deficit for May was $16 billion, significantly more than had been anticipated by the Administration. The underestimation of the deficit mainly was a result of personal income and social security withholdings falling short of projections.

Outlays apparently were consistent with the Administration's expectations, although the distribution was different; continued shortfalls in defense expenditures and declines in unemployment compensation outlays were offset by accelerated spending for the strategic petroleum reserve, lower-than-anticipated repayments of Commodity Credit Corporation loans, and limited sales of financial assets.

The First Concurrent Resolution on the fiscal 1982 budget was passed by the Congress in mid-May. The resolution is in general agreement with the Administration's budget proposals and recommends outlays of $695 billion and receipts of $658 billion in FY1982, resulting in a deficit of about $38 billion. Reconciliation instructions included in the resolution require that the authorizing committees of Congress reduce the cost of existing programs by about $36 billion. The Senate and House have approved reconciliation bills that are consistent with this target.

The budget resolution allows for tax cuts of $9 billion in fiscal year 1981 and $51 billion in fiscal year 1982, sufficient to accommodate the Administration's original tax cut proposals. Subsequently, the Administration has scaled back its recommended tax reductions to $2 billion in FY1981 and $38 billion in FY1982. The Senate Finance Committee has reported a bill that is in general agreement with the Administration's revised program. Meanwhile, deliberations by the House Ways and Means Committee on tax reduction continue.

State and local governments have curtailed their spending in recent months, partly in response to reductions in federal grants-in-aid. Employment fell 40,000 in May and has decreased 80,000 over the past six months. In large part, this decline reflects the ongoing elimination of federally funded public service jobs. CETA enrollments have fallen 180,000 since December; a Labor Department survey suggests that fewer than half of the laid-off CETA workers have been transferred to regular payrolls. The value of new construction activity dropped a record 12 percent in April, with declines recorded for all major State and local government categories. This drop follows a very strong gain in the first quarter, however, and the value of new construction in real terms in the first four months of 1981 was almost 5 percent above that in the fourth quarter of 1980.

Prices and Labor Costs

Declining food and gasoline prices continued to hold down increases in broad measures of inflation in May, and the inflation rate for some other consumer commodities has been running below last year's rate. However, homeownereship costs accelerated in May, and prices for capital equipment continued to advance at the double-digit pace evident since early 1980.

Consumer food prices, which were little changed over the first four months of 1981, edged lower in May. Price declines were widespread in May, but meat prices rose slightly, after falling for four months. In addition, farm prices for livestock--especially live hogs--increased sharply in June, amid signs that pork production is trending lower.

Retail energy prices have risen only slightly on average since March, as decreases for petroleum products largely offset higher natural gas and electricity rates. Gasoline prices fell about 1-1/2 percent per month in April and May, and industry sources indicate that these prices

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

	Relative importance[2] Dec. 1980	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
Finished goods	100.0	11.8	8.3	12.0	15.1	9.5	4.5
Consumer foods	23.0	7.5	4.3	.3	9.1	0.0	-.5
Consumer nonfood	56.6	14.2	8.9	17.4	19.7	12.8	3.5
Energy	12.0	27.8	14.8	61.7	73.5	19.0	-5.9
Exc. energy	44.7	10.4	7.3	7.2	4.5	10.6	6.6
Capital equipment	20.3	11.4	11.8	11.5	8.9	11.2	10.6
Intermediate materials[3]	93.6	12.4	12.9	13.2	15.2	13.4	7.4
Exc. food and energy	77.4	10.1	11.0	7.1	7.4	12.6	8.6
Crude food materials	58.2	8.6	-4.0	-23.1	-24.6	18.6	-26.5
Crude nonfood	41.8	19.1	27.5	35.7	-5.3	16.5	18.0
Exc. energy	15.6	7.5	15.4	-37.3	-25.8	36.2	37.9

1. Changes are from final month of preceding period to final month of period indicated.
2. Relative importance weights are on a stage of processing basis.
3. Excludes materials for food manufacturing and animal feeds.

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

	Relative importance Dec. 1980	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
All items	100.0	12.4	13.2	9.6	7.3	5.0	8.1
Food	17.3	10.2	13.1	2.1	4.4	.0	-2.7
Energy[3]	10.8	18.1	.3	49.1	24.5	1.5	4.4
All items less food and energy[3]	71.8	12.1	14.4	5.8	4.9	7.7	13.4
Homeownership	25.8	16.5	23.1	3.1	3.2	8.2	20.5
All items less food, energy, homeownership[4]	49.6	9.9	9.8	8.0	7.5	9.6	7.4
Used cars	3.0	18.3	62.3	6.5	-2.0	-3.0	2.5
Other commodities[4]	20.5	8.1	4.0	6.6	6.8	9.2	7.9
Other services[4]	26.1	10.3	8.5	10.1	9.1	9.5	10.3

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.
4. Reconstructed series; these series include home maintenance and repairs (home maintenance and repair services and commodities combined have a relative importance weight of 3.6), a component of homeownership costs.

Homeownership costs, which had contributed to the slowing of the CPI during 1981-Q1, registered the first large increase this year in May. This acceleration was due to a sharp upturn in the home purchase index combined with a further advance in mortgage interest rates. The CPI measure of home prices is limited to FHA-insured homes and therefore may not be representative of broader trends; the May turn-around brought this measure more in line with other indicators of house prices, which have shown moderate increases over the past half-year. The mortgage rate index rose about 2 percent on average in April and May. Because mortgage rates are recorded with a lag in the CPI, actual changes in mortgage costs that occurred in May are expected to boost homeownership costs further over the next few months.

Apart from food, energy, and homeownership, consumer prices have risen at an 8-1/4 percent annual rate this year, down from the 10 percent rate over 1980. Smaller increases, on average, this year, for some commodities, such as used cars and apparel, contributed to this slow-down. At the same time, price pressures have been especially persistent for consumer services; services other than home financing and energy costs have risen at a 10 percent annual rate in the last few months, about the same as the first quarter. Also, producer prices for capital equipment rose at a 10-1/2 percent annual rate in April and May, only slightly below the 11-1/2 percent pace of the first quarter. Increases in capital goods prices were widespread, covering agricultural equipment and construction machinery as well as machine tools and electrical equipment. In addition, prices for motor vehicles were increased sharply in April and May for many domestic and imported models.

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

	1979	1980	1981 Q1	1981 Mar.	1981 Apr.	1981 May
Total private nonfarm	8.1	9.7	10.1	9.0	5.2	7.7
Manufacturing	8.7	11.0	9.2	9.7	12.3	4.8
Durable	8.7	11.7	9.4	9.3	12.7	4.7
Nondurable	8.7	9.8	9.0	10.4	11.5	5.0
Contract construction	6.8	7.4	9.2	9.5	1.1	5.0
Transportation and public utilities	9.0	9.5	9.3	7.3	8.6	10.5
Total trade	7.6	8.8	11.4	9.8	2.0	9.0
Services	7.6	9.5	10.2	8.5	.9	9.9

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates; monthly changes are not compounded.

To a large extent, the momentum in underlying inflationary trends stems from the pressure of increases in labor costs. However, some possible amelioration in these pressures is indicated by recent data, as the increase in wages during the first five months of this year was slightly below the 1980 pace. Smaller wage gains in the retail trade and service sectors were instrumental in holding the increase in the hourly earnings index for all nonfarm production workers to a 6-1/2 percent annual rate between March and May, following a 10 percent rate in the first quarter. However, such a deceleration typically occurs in the quarter following a hike in the minimum wage. But more importantly, manufacturing wage increases--at a 9-1/2 percent rate so far this year--have been running about 1-1/2 percentage points below the rate posted in 1980. Data from the Employment Cost Index also indicated that wage and salary rates for unionized workers, particularly in manufacturing industries, advanced less rapidly in the first three months than during the same period a year earlier. This may reflect, in part, this year's light calendar for new bargaining settlements. However, increases in the ECI for white collar workers, particularly professionals and managers, were much larger early this year than during 1980-Q1.

M1-B, adjusted for the effects of shifts into NOW accounts, declined in May and June following the surge in April. M2 has expanded less rapidly since April, reflecting not only contraction in M1-B, but also a pause in the growth of money market funds in May. M3 has continued to expand rapidly, however, because of the sharp rise in large time deposits.

Since the mid-May FOMC meeting, interest rates have fallen on balance as market participants have been impressed by an evident leveling off of economic activity and a moderation of inflation as well as by the weakness in money growth. These expectational factors have outweighed the influence of the federal funds rate, which has fluctuated in an 18-1/2 to 19-1/2 percent range. Most short-term interest rates are about 1-1/2 to 2-1/2 percentage points below their early May high levels, although the commercial bank prime lending rate--now 20 percent--has risen 1 point on net. Yields on longer-term taxable bonds have fallen by about 1 to 1-1/2 percentage points from their all-time highs of early May. However, average rates on conventional fixed-rate home mortgages in the primary market have remained close to record high levels.

Overall business credit demands have been substantial in recent months, apparently as a result of an increase in external financing requirements. Throughout May and in early June, these larger demands surfaced principally in the commercial paper market and at banks, owing in part to a reluctance by firms to borrow long-term at such high cost and also to expectations of a further decline in bond rates. During the intermeeting period, the Treasury raised virtually no new money from the public, but borrowing by state and local governments remained fairly strong.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1980 Dec. High	1981 Mar. Low	1981 Early May High	1981 FOMC May 18	1981 June 30	Change from: Early May High	Change from: FOMC May 18
Short-term rates							
Federal funds[2]	19.83	13.48	18.91	18.89	18.47	-.44	-.42
Treasury bills							
3-month	17.14	12.36	17.01	16.20	14.28	-2.73	-1.92
6-month	15.74	11.58	15.83	15.13	13.88	-1.95	-1.25
1-year	14.06	11.50	14.85	14.08	13.24	-1.61	-.84
Commercial paper							
1-month	20.77	12.62	18.57	17.86	16.90	-1.67	-.96
3-month	19.88	12.48	18.29	17.65	16.04	-2.25	-1.61
6-month	18.58	12.19	17.38	16.59	15.38	-2.00	-1.21
Large negotiable CDs[3]							
1-month	21.29	12.94	18.80	18.11	17.11	-1.69	-1.00
3-month	20.90	12.99	19.01	18.29	16.70	-2.31	-1.59
6-month	19.19	12.94	18.50	17.42	16.03	-2.47	-1.39
Eurodollar deposits[2]							
1-month	22.54	13.84	19.39	18.94	18.40	-.99	-.54
3-month	21.36	14.31	19.56	19.08	18.01	-1.55	-1.07
Bank prime rate	21.50	17.00*	19.00	19.50	20.00	1.00	.50
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	14.41	12.85	15.69	14.71	14.56	-1.12	-.14
10-year	13.57	12.58	14.69	13.80	13.86	-.83	.06
30-year	13.17	12.16	14.11	13.31	13.30	-.81	-.01
Municipal (Bond Buyer)	10.56	9.81	10.94	10.83[4]	10.74[4]	-.20	-.09
Corporate Aaa							
New issue	14.51	14.42	16.12	15.80[5]	--[5]	--	--
Recently offered	15.03	13.98	16.26	15.63[6]	14.79p[6]	-1.47	-.84
Primary conventional mortgages	14.95	--	16.12	16.64[6]	16.62[6]	.50	-.02

	1980 Dec. 31	1981 FOMC Mar. 31	1981 FOMC May 18	1981 June 30	Percent change from: Dec. 31	Percent change from: FOMC May 18
Stock Prices						
Dow-Jones Industrial	963.99	1003.87	985.77	976.88	1.3	-.9
NYSE Composite	77.86	78.27	76.73	76.15	-2.2	-.8
AMEX Composite	348.99	360.60	368.84	374.63	7.3	1.6
NASDAQ (OTC)	202.34	210.18	216.94	215.75	6.6	-.5

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. Averages for preceding week.
6. One-day quotes for preceding Fri
* Low reached on April 2.

Activity in residential mortgage markets has continued weak, reflecting both high interest rates and the difficulties of thrift institutions, although reports indicate that nontraditional financing methods are still a significant source of credit at below-market rates. Available data on consumer spending and bank lending point to continued sluggishness in consumer installment debt formation.

Monetary Aggregates and Bank Credit

M1-B, shift-adjusted, declined at a 5 percent annual rate in May and at an estimated 5-1/2 percent rate in June.[1] During this period M1-A contracted, and other checkable deposits declined slightly on balance after having grown rapidly during the first four months that NOW accounts were available nationwide.[2]

For the second quarter as a whole, M1-B adjusted is estimated to have increased at a 5-3/4 percent annual rate, somewhat slower than would be expected on the basis of standard econometric formulations of the demand for money, which allow for the sharply reduced pace of GNP growth in the second quarter and generally higher interest rates since late 1980. According to the Board's quarterly model, the shortfall in narrow money growth in the second quarter was about 2-1/2 percent at an annual rate, following a shortfall of more than 7 percent at an annual rate in the previous quarter. A modified version of this model, designed to capture the incentives

1. Money stock data reflect benchmark revisions published on June 26. At that time, travelers checks of nonbank issuers were included in M1-A and the broader aggregates. This revision raised the levels of the aggregates by more than $4 billion in 1981 but only minimally affected growth rates.
2. Information from a survey by the Survey Research Center of the University of Michigan suggested that households continued to open new interest-bearing transactions accounts in May, although at a slower pace than early in the year.

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

	1980 Q4	1981 Q1	1981 Q2[e]	1981 Apr.	1981 May	1981 June[e]	June '80 to June '81[e]
	---- Percentage change at annual rates ----						
Money stock measures							
1. M1-A	8.2	-20.8	-4.9	2.6	-5.6	-5.6	-2.8
2. (Adjusted)[2]	n.a.	(-1.7)	(5.5)	(17.6)	(-6.1)	(-6.4)	n.a.
3. M1-B	10.8	4.9	9.1	22.3	-6.1	-4.4	8.9
4. (Adjusted)[2]	n.a.	(-0.8)	(5.7)	(16.9)	(-5.1)	(-5.4)	n.a.
5. M2	8.1	8.2	10.9	13.5	4.1	6.1	10.3
6. M3	11.3	12.4	10.6	10.9	9.1	10.7	12.2
Selected components							
7. Currency	8.8	5.5	8.2	10.2	9.1	3.0	8.1
8. Demand deposits	7.9	-32.9	-11.3	-2.0	-11.8	-9.5	-7.7
9. Other checkable deposits	52.9	372.3	107.4	141.5	-7.1	1.8	213.1
10. M2 minus M1-B (11+12+13+16)	7.3	9.4	11.5	10.7	7.5	9.5	10.7
11. Overnight RPs and Eurodollars, NSA[3]	15.3	0.0	56.4	28.9	158.8	21.8	55.6
12. Money market mutual fund shares, NSA	-15.5	84.5	112.8	130.7	10.2	39.6	64.4
13. Commercial banks	10.2	6.0	4.2	2.5	4.5	5.9	7.6
14. savings deposits	1.5	-30.5	-11.9	-2.8	-16.0	-24.0	-7.9
15. small time deposits	16.2	30.2	13.4	5.4	15.8	22.4	17.8
16. Thrift institutions	7.6	3.5	0.4	-3.2	1.6	4.8	4.9
17. savings deposits	-2.2	-29.6	-13.0	-6.1	-22.8	-24.5	-8.2
18. small time deposits	12.5	19.0	5.8	-2.0	11.6	16.4	11.0
19. Large time deposits	28.1	39.6	10.5	-6.6	40.5	32.3	22.6
20 at commercial banks, net[4]	24.8	40.6	10.3	-9.1	44.7	36.9	21.2
21. at thrift institutions	44.9	34.7	11.2	5.1	20.5	10.1	30.0
22. Term RPs, NSA	47.7	16.4	-1.1	16.4	16.2	60.8	34.5
	--Average monthly change in billions of dollars--						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	9.2	4.1	n.a.	-2.3	17.0	n.a.	n.a.
24. Large time deposits, gross	7.0	5.1	6.9	3.2	10.5	7.1	5.1
25. Nondeposit funds	2.2	-1.0	n.a.	-5.5	6.5	n.a.	n.a.
26. Net due to related foreign institutions, NSA	-0.2	-1.4	n.a.	-4.3	9.2	n.a.	n.a.
27. Other[5]	2.4	0.4	n.a.	-1.2	-2.8	n.a.	n.a.
28. U.S. government deposits at commercial banks[6]	-0.9	1.1	-0.4	0.6	1.9	-3.6	0.2

1. Quarterly growth rates are computed on a quarterly average basis.
2. Figures in parentheses have been adjusted to remove the distorting effects since the beginning of 1981 of shifts of funds out of demand deposits and other accounts into NOW accounts. Based on a variety of evidence, it is estimated that 77-1/2 percent of inflows into other checkable deposits--in excess of "trend"--was from demand deposits in January, and 72-1/2 percent in February-May. The fraction assumed for June is 72-1/2 percent.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loan RPs, and other minor items. Changes since October 1980 are partially estimated.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
n.a.--not available. e--estimated.

provided by high interest rates for adoption of new cash management techniques, showed essentially no net error over the first half and thus gives some support to the notion that there was indeed a significant downward shift in the public's narrow money demand as conventionally conceived.

Reflecting in part the decline in M1-B, M2 decelerated in May and June from the rapid April pace. The nontransactions component of M2 expanded at a somewhat slower rate as well, especially in May when the lagging response of money market fund yields to earlier rate increases led some investors to move funds directly to market instruments. Higher rates may have accounted also for a more rapid contraction of savings deposits in May and June; in any event, these outflows were more than offset by growth of small time deposits, primarily in the form of money market certificates. More recently, as market rates have backed off from their May peaks, money market fund growth has resumed at a brisk clip.

Despite slower M2 growth, the previous pace of expansion in M3 was maintained during May and June as large time deposits surged after two months of decline. In May, commercial banks stepped up their reliance on managed liabilities, largely to fund a substantial rise in earning assets as core deposits weakened. This expansion in managed liabilities included borrowings of more than $9 billion from related foreign offices. In June, banks' funding requirements were boosted by a $3-1/2 billion outflow of U.S. Treasury balances.

Large time deposits at savings and loan associations also have increased moderately, despite sluggish mortgage lending by these institutions in the aggregate, but have shown signs of softening in recent weeks.

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

	1980			1981				May 80 to May 81
	Q2	Q3	Q4	Q1	Mar.	Apr.	May	
	---------- Commercial Bank Credit ----------							
1. Total loans and investments at banks[2]	-4.1	12.9	14.6	7.8	-0.7	4.5	11.6	10.3
2. Investments	12.0	20.5	11.9	10.5	2.2	- .7	12.3	13.8
3. Treasury securities	13.1	39.1	11.1	15.2	-4.2	4.2	25.0	23.2
4. Other securities	11.4	11.5	12.3	8.0	5.5	-3.3	5.5	9.2
5. Total loans[2]	-9.4	10.2	15.6	6.7	-1.8	6.4	11.4	9.1
6. Business loans[2]	-9.3	15.2	21.1	8.6	2.5	3.2	7.2	11.9
7. Security loans	-17.1	-10.2	60.1	25.0	33.0	64.2	18.3	29.9
8. Real estate loans	1.9	4.5	11.0	9.4	9.1	7.2	9.4	7.7
9. Consumer loans	-16.9	-7.6	-0.2	-1.4	2.1	- .7	-4.1	-4.2
	-- Short- and Intermediate-Term Business Credit --							
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	2.5	9.0	14.4	15.4	14.2	6.4	n.a.	n.a.
11. Business loans net of bankers acceptances	-10.7	14.3	24.1	8.0	3.3	.7	8.1	11.8
12. Commercial paper issued by nonfinancial firms[3]	62.6	-19.3	-3.0	30.7	29.2	-11.4	48.9	11.9
13. Sum of lines 11 & 12	-2.9	10.1	21.0	10.5	6.2	-.7	12.7	11.8
14. Line 13 plus loans at foreign branches[4]	-0.6	9.6	19.4	13.7	10.3	.6	11.5	12.5
15. Finance company loans to business[5]	-2.3	-4.6	14.6	8.5	-3.3	3.3	n.a.	n.a.
16. Total bankers acceptances outstanding[5]	31.5	21.0	-15.7	35.6	62.3	46.9	n.a.	n.a.

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Average of Wednesdays.
4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestic-chartered banks.
5. Based on average of current and preceding ends of months.
n.a.--not available.

Weakness in deposit growth and earnings, in conjunction with recent publicity associated with failures and mergers, has caused investors to be cautious in making repurchase agreements with some S&Ls or in acquiring their large CDs. Reports indicate that the strongest S&Ls are paying 100 basis points over the highest quality commercial bank CD rate, compared to the historically more typical 25 to 50 basis-point spread, and that weaker S&Ls are paying an additional 100 basis points, if they can issue large CDs at all.

Bank credit expanded in May at an 11-1/2 percent rate, the most rapid pace since January, with particular strength in holdings of U.S. government securities. Business loan growth quickened to a 7-1/4 percent annual rate from its earlier sluggish pace, while real estate lending showed moderate growth, and consumer lending was weak. In early June a continuation of these trends was evident at large banks, while very preliminary data for small banks pointed to some weakening in business loans.

The May Survey of Senior Loan Officer Opinion indicated that there had been some easing of nonrate lending terms in the period since February; a fair number of respondents reported lower compensating balance and fee requirements and easier standards of creditworthiness for prime-based loans. At the same time, however, the May Survey of Terms of Bank Lending showed a substantial drop in the proportion of loans made at rates below prime at large banks--from more than 70 percent in February to 38 percent in May--a development that may reflect a narrowing in the spread between the prime rate and market rates over that interval.

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

	1980	1981 Q1	1981 Q2 p	1981 May p	1981 June p
	——— Seasonally adjusted ———				
Corporate securities--total	6,141	5,941	5,968	4,430	5,900
Publicly offered bonds[1]	3,466	3,443	2,846	2,500	3,000
Privately placed bonds	968	523	722	600	600
Stocks	1,707	1,975	2,400	1,330	2,300
	——— Not seasonally adjusted ———				
Publicly offered bonds--total[1]	3,466	3,038	3,389	2,500	4,000
By quality[2]					
Aaa and Aa	1,666	914	1,266	760	1,960
Less than Aa[3]	1,800	2,124	2,123	1,740	2,040
By type of issuer					
Utility	1,304	1,125	1,176	1,080	1,270
Industrial	1,323	1,289	1,433	1,060	1,675
Financial	839	624	780	360	1,055
Memo Items:					
Convertible bonds	390	439	446	360	305
Original discount bonds					
Par value	--	167	1,175	375	1,400
Gross proceeds	--	85	480	169	490
Stocks--total	1,707	1,889	2,113	1,600	2,500
By type of issuer					
Utility	612	499	940	400	1,500
Industrial	840	1,186	953	1,050	800
Financial	255	204	220	150	200

p--preliminary.
1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Bonds categorized according to Moody's bond ratings.
3. Includes issues not rated by Moody's.

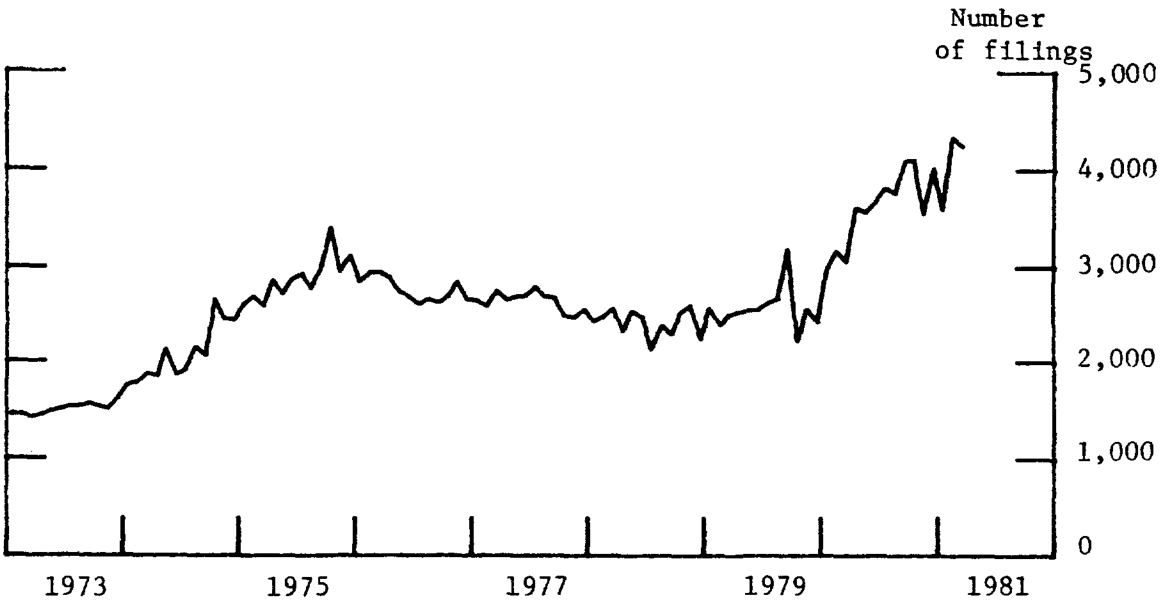
Business Finance

Total external financing by nonfinancial business firms appears to have increased considerably in May and June. This development appears to have been associated with a widening of the corporate financing gap, in part reflecting an unanticipated build-up of inventories against a backdrop of weakening profits. Increases in credit demands have been concentrated in short-term markets as potential long-term borrowers have continued to forgo bond offerings in anticipation of more favorable conditions. In addition to the rebound in bank business loans, nonfinancial commercial paper issuance has grown exceptionally rapidly in this period. Paper dealers report that oil companies have been borrowing significant amounts to finance their inventories.

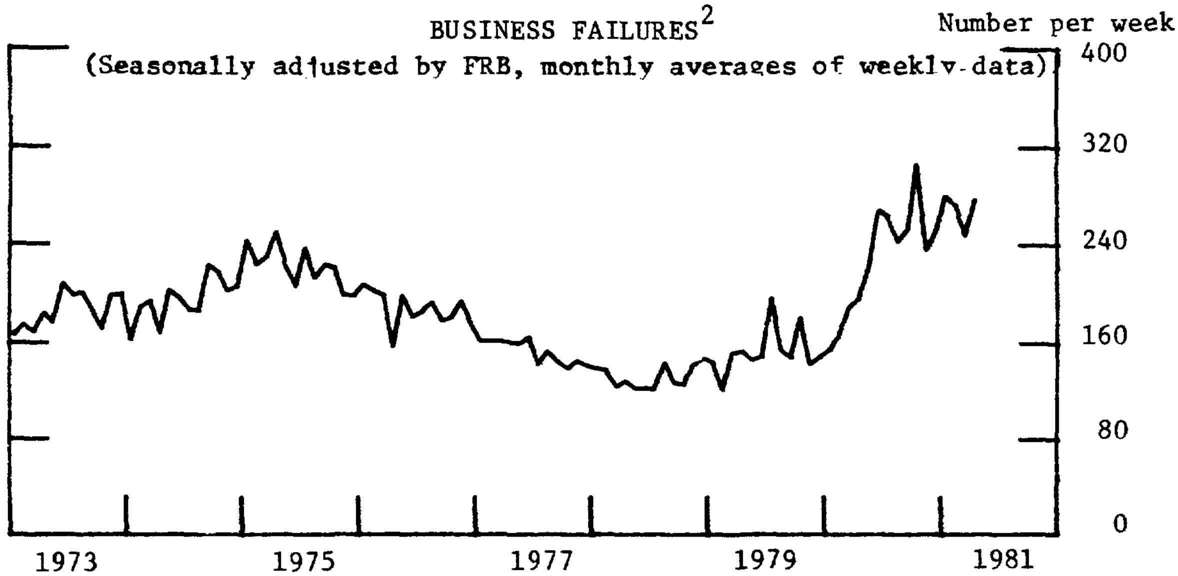
Although corporate bond yields have declined about 1-1/2 percentage points since reaching new highs in early May, with about 1 percentage point of the drop occurring after the May FOMC meeting, the pace of public corporate bond offerings in May and June continued at about the moderate April rate, falling short of that in the first quarter. The prevailing market view is that there is a massive potential supply of new issues that would be offered if rates were to decline somewhat further. A substantial volume of issues has been registered with the SEC in 1981 and not yet been sold; moreover, new registration procedures allow issues to be brought to market relatively quickly.

Equity prices have shown a mixed pattern over the intermeeting period but on balance are little changed. The volume of new equity offerings declined sharply in May to $1.3 billion but jumped to $2.3 billion in June,

BUSINESS BANKRUPTCIES[1]
(Seasonally adjusted by FRB)



BUSINESS FAILURES[2]
(Seasonally adjusted by FRB, monthly averages of weekly data)



1. As reported by the Administrative Office of the U.S. Courts, the number of nonpersonal filings for protection under the various provisions of the U.S. Bankruptcy Code; a number of these businesses continue in operation.
2. Preliminary estimates by Dun & Bradstreet of the number of businesses that have ceased business leaving unpaid creditor obligations or that are involved in court actions that are likely to lead to a loss to the creditors.

when AT&T sold a record $1.0 billion of common stock. So far this year, new equity volume has been running about 25 percent above the record pace set last year.

A number of indicators attest to the toll that the economic and financial stresses of the past few years have taken on business firms. Bankruptcy filings by businesses rose to a new record this spring after having declined in the second half of 1980.[1] Similarly, preliminary data on business failures reported by Dun & Bradstreet have shown a decided upward movement this year, with failures since the beginning of 1981 averaging about 40 percent more than last year.

Short of such drastic results, many firms have seen their bond ratings deteriorate, extending a trend that first became apparent about a year ago. Downgradings and withdrawals of ratings on long-term debt by Moody's Investor Service reached a seven-year high of 40 in the first half of 1981. As was the case last year, downgradings exceeded upgradings by a 2 to 1 margin and were widely dispersed across industries. In addition, yield spreads between lower- and higher-rated long-term corporate bonds have been widening in recent weeks. In the commercial paper market, downgradings and terminations of ratings have also continued to outnumber the few upgradings, but the weakening has been less than in the 1974-75 period, reflecting a higher degree of selectivity which has prevailed in this market since that time. Downgradings and withdrawals of ratings on

1. Since early 1980, filings have been fluctuating above the previous peak set in 1975; however, these data must be interpreted cautiously for two reasons. First, filings apparently have been encouraged by changes in the bankruptcy code which became effective in late 1979. Also, when scaled by the number of total firms, bankruptcy filings are well short of the postwar high established in the early 1960s.

FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING
(Billions of dollars)

	Q1	Q2[e]	May	June[e]
Treasury financing				
Combined surplus/deficit(-)	-38.5	10.0	-18.4	13.1
Net marketable borrowings/ repayments(-)	37.9	-0.7	0.7	1.9
Bills	19.1	-16.6	-1.3	-5.8
Coupons	18.8	15.9	2.0	7.7
Nonmarketable borrowings/ repayments(-)	-2.1	-2.3	-0.2	-1.7
Other means of finance[2]	1.1	-1.3	2.4	-2.6
Change in cash balance	-1.6	5.7	-15.5	10.7
Federally sponsored credit agencies net cash borrowings[3]	3.5	9.5	3.5	3.2

1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Farm Credit Bank System.

e--estimated.

savings and loan commercial paper have accounted for two-fifths of the total negative actions this year.

Government Finance

Since mid-May the Treasury has raised essentially no new money from the public. During this period, the Treasury raised $7.7 billion of cash through its regular sales of notes and bonds, but it also paid down $2.5 billion in the regular weekly and monthly bill auctions and $4.0 billion of cash management bills sold last February. Net redemptions of savings bonds are estimated to have absorbed approximately $1 billion of cash over the period--despite an increase in their rate to 9 percent on May 1--and foreign accounts redeemed a small amount of nonmarketable issues.

Further sizable borrowing by federally sponsored credit agencies in May and June is estimated to have brought the second quarter total to $9.5 billion (not seasonally adjusted), an increase of $6.0 billion over the first quarter. This surge in agency borrowing was primarily accounted for by the Federal Home Loan Banks, which raised $6.7 billion of new cash--more than four times the level raised in the first quarter. The FHLBs used these funds primarily to finance a $5.5 billion increase in advances to thrift institutions. The Farm Credit Banks borrowed $3.3 billion in the second quarter, but FNMA paid down $500 million of longer-term debt, reflecting its continued low level of mortgage purchases and a switch toward short-term borrowing.

Gross long-term security issuance by state and local governments was down in May and June from the pace of earlier months. On the other hand, borrowing in short-term markets was unusually heavy in May, mainly as a result of a large New York City offering that had been delayed for technical reasons.

GROSS OFFERINGS OF STATE AND LOCAL GOVERNMENT SECURITIES
(Monthly averages, billions of dollars)

		1981			
	1980	Q1	Q2 e	May e	June e
	Seasonally adjusted				
Total	6.22	5.68	7.05	8.90	6.00
Long-term	4.03	3.41	3.80	3.20	3.00
Short-term	2.19	2.27	3.25	5.70	3.00
	Not seasonally adjusted				
Total	6.22	5.06	7.40	8.20	6.90
Long-term	4.03	3.16	4.20	3.50	4.00
Housing bonds	1.07	.39	.35	.25	.50
Short-term	2.19	1.90	3.20	4.70	2.90

e--estimate

Yields on tax-exempt bond issues are slightly lower, on average, than they were in mid-May; however, the relative decline has been less than on long-term corporate securities. Although the forward supply is heavy for both types of obligations, the failure of tax-exempt yields to drop further apparently reflects reduced demand by institutional investors. Holdings by large commercial banks of longer-term state and local obligations have declined thus far this year as these institutions have shifted their acquisitions toward shorter-term tax-exempt obligations. In addition, property/casualty companies reportedly have been selling large amounts of such issues at capital losses in order to offset capital gains from real estate sales. Consequently, dealer inventories reportedly have swelled; the record size of the Blue List provides some confirmation of this phenomenon.

Mortgage Markets

Interest rates on new commitments for fixed-rate conventional home mortgages at S&Ls have declined only slightly from their unprecedented levels reached in late May; contract rates currently exceed 16 percent in all regions of the country and are close to 17 percent in the West. However, field reports continue to stress that borrowing costs of many homebuyers have been limited through buydown arrangements and loan assumptions. Moreover, below-market rate mortgages financed through earlier issues of tax-exempt bonds continue to be a factor of some importance,[1] and adjustable-rate home loans apparently are being marketed by private financial institutions at interest rates somewhat below those on fixed-rate contracts.[2]

Nevertheless, the generally high level of rates and cautious lending policies have depressed residential mortgage activity. In May the volume of commitments outstanding at S&Ls fell for the sixth consecutive month as new commitments declined to $5.0 billion, nearly 50 percent below the recent peak last August; net acquisitions of mortgages by these

1. On June 30, the Treasury Department announced regulations clarifying some of the restrictions imposed on single-family mortgage revenue bonds issued by state and local governments. The volume of such tax-exempt securities has been sharply curtailed so far in 1981, owing in part to questions about the details of last December's federal law that restricts this type of financing through 1983 and bans it thereafter.
2. FHLMC and FNMA recently announced new purchase programs that should facilitate originations of adjustable-rate conventional home mortgages with interest rates that change periodically with market interest rates during the life of the loan. The FHLMC program takes effect July 1, and the FNMA program August 7.

PRIMARY MARKET FOR CONVENTIONAL HOME MORTGAGES

Period	Fixed-rate level-payment loans at S&Ls: Average rate for 80 percent loans (percent)	Change from month or week earlier (basis points)	Spread over corporates[1] (basis points)	RRMs at major lenders[2]: Average rate for loans of 80 percent or less (percent)
1980--High	16.35	--	385	n.a.
Low	12.18	--	-20	n.a.
1981--High	16.80	--	199	16.19
Low	14.80	--	-46	14.63
Apr.	15.58	18	-20	14.97
May	16.40	82	143	15.83
May 1	15.82	5	-44	15.38
8	16.12	30	50	15.51
15	16.64	48	101	16.01
22	16.63	-1	134	16.19
29	16.80	17	183	16.05
June 5	16.76	-4	173	16.17
12	16.69	-7	195	16.02
19	16.71	2	199	16.16
26	16.62	-9	183	n.a.

1. Average mortgage rate on new commitments minus average yield on recently offered Aaa utility bonds.
2. New commitments for renegotiable rate mortgages made pursuant to FHLBB regulations issued prior to April 1981 (from FNMA field reports).

SECONDARY MARKET FOR HOME MORTGAGES

Period	FNMA auctions of forward purchase commitments[1]: Conventional: Amount ($ millions) Offered	Conventional: Amount ($ millions) Accepted	Conventional: Yield to FNMA (percent)	FHA/VA: Amount ($ millions) Offered	FHA/VA: Amount ($ millions) Accepted	FHA/VA: Yield to FNMA (percent)	Yield on GNMA securities for immediate delivery[2] (percent)
1980--High	426	133	17.51	644	324	15.93	14.41
Low	29	20	12.76	97	52	12.28	10.79
1981--High	178	84	16.45	147	100	17.21	15.46
Low	12	11	14.83	58	35	14.84	13.18
May 4	--	--	--	--	--	--	15.46
11	115	72	16.42	110	100	17.21	15.37
18	--	--	--	--	--	--	15.16
25	167	84	16.45	95	80	16.65	15.23
June 1	--	--	--	--	--	--	14.97
8	177	147	16.31	108	98	16.17	14.96
15	--	--	--	--	--	--	14.75
22	130	76	16.29	130	118	16.17	15.09

1. Auction yields on fixed-rate level-payment loans are gross, before deduction of 38 basis points for mortgage servicing.
2. Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA level-payment mortgages typically carrying the prevailing ceiling rate on such loans.

institutions, meanwhile, edged down to $1.9 billion. Balance sheet data through April for mutual savings banks continue to indicate that participation in the mortgage market by these institutions has languished. At life insurance companies, where cash flows have been eroded by policy loans, mortgage commitments have been falling since late 1979; the sharpest declines have been in the residential components, while commitments for long-term mortgage loans to businesses have held up comparatively well.

Government support of the residential mortgage markets has remained quite low even in the face of weakening activity at the major private lenders this year. The volume of advances made by the Federal Home Loan Banks to member institutions has been substantial, but the cost of these funds has been high, and recently the FHLBB restated its policy of lending only to cover net deposit withdrawals and takedowns of existing loan commitments. Total mortgage commitments outstanding at the major federal and related agencies operating in the secondary markets have dwindled since last fall, even in nominal terms. Commitments at GNMA have edged up on balance, but commitments have declined slightly at FHLMC and have fallen substantially at FNMA. The contraction at FNMA reflects the serious erosion in the earnings of this quasi-public agency, which has attempted to boost its income partly by imposing higher commitment fees.

As the issuance of mortgage purchase commitments by FNMA has declined, GNMA-guaranteed passthrough securities have become a relatively more important marketing channel for originators of FHA- and VA-underwritten mortgages. The availability of funds through this market has helped maintain the volume of originations of federally underwritten

MORTGAGE COMMITMENTS OUTSTANDING AT SELECTED INSTITUTIONS
(Billions of dollars, seasonally adjusted)

End of Period	Private Institutions				Federal and related agencies			
	Total	All S&Ls	NY MSBs	Life insurance companies	Total	FNMA	GNMA	FHLMC
1978	58.8	32.7	4.7	21.4	16.1	9.5	4.8	1.8
1979	57.4	28.1	3.3	26.0	12.1	6.5	4.6	1.0
1980								
March	49.1	24.0	2.5	22.6	10.6	5.3	4.5	0.8
June	41.4	20.7	1.8	18.9	10.5	3.9	5.6	1.0
Sept.	47.6	28.0	1.8	17.8	10.8	5.0	5.0	0.8
Dec.	46.0	27.3	1.6	17.1	9.0	3.3	5.1	0.6
1981								
Jan.	45.0	27.1	1.4	16.5	10.2	3.2	6.3	0.7
Feb.	43.5	26.2	1.4	15.9	9.4	2.7	6.2	0.5
Mar.	42.3	25.5	1.4	15.4	9.1	2.3	6.0	0.8
Apr.	42.1	25.2	1.7	15.1	8.6	2.1	5.8	0.7
May	n.a.	24.7	n.a.	n.a.	8.2	2.1	5.7	0.4

n.a. - not available.

home loans in the primary market. Rate ceilings on FHA/VA loans have caused discounts in primary and secondary markets--including the GNMA market--to rise substantially several times this year as market yields have climbed, but the current ceiling of 15-1/2 percent on level-payment home loans is holding discounts to relatively low levels.

Consumer Installment Credit

Continued weakness in auto sales and apparently sluggish retail sales activity suggest that the demand for consumer installment credit has remained slack since April. Installment debt had expanded at a 9 percent seasonally adjusted annual rate during April, marginally above the first-quarter pace but less than the 12 percent rate of growth during March which accompanied auto rebates. On the supply side of the market, the mid-May Survey of Senior Loan Officer Opinion indicated a moderate reduction--for the third quarter in succession--in the willingness of larger banks to accommodate consumer credit demands. Preliminary data for large banks indicate that consumer lending continued weak into June.

CONSUMER INSTALLMENT CREDIT[1]

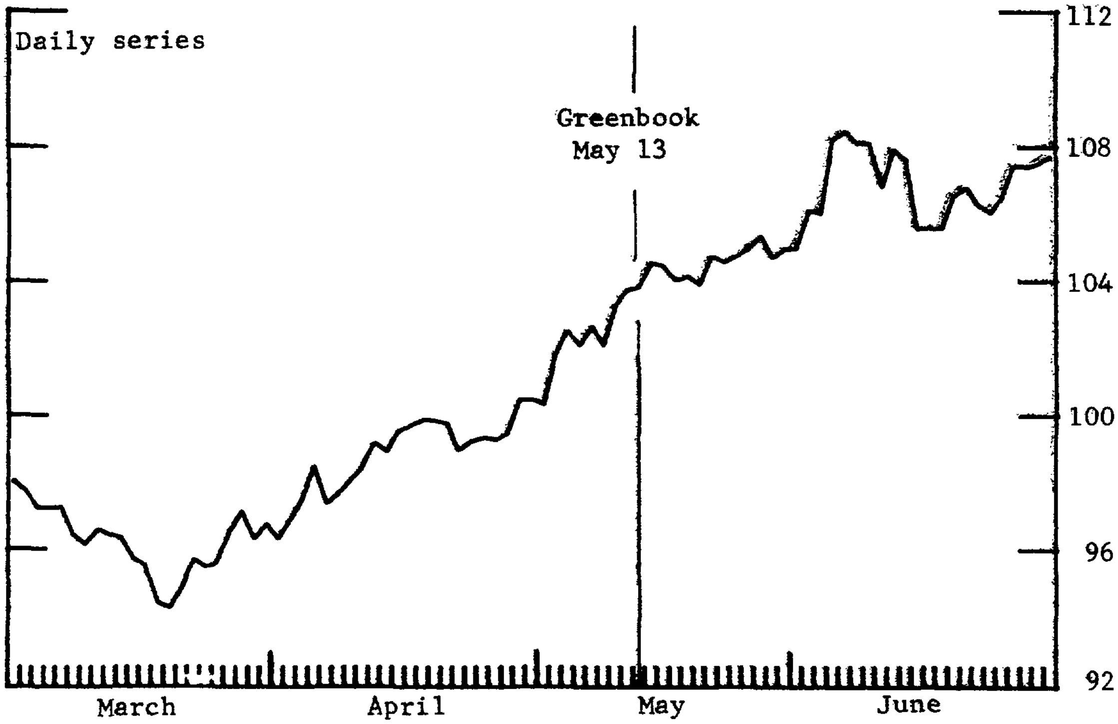
	1979	1980	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.
Total						
Change in outstandings						
Billions of dollars	38.4	1.4	12.6	23.9	37.3	28.0
Percent	14.0	0.5	4.2	7.8	11.9	8.9
Extensions						
Billions of dollars	324.8	305.9	322.0	342.4	357.9	346.5
Bank share (percent)	47.6	43.7	43.3	40.6	42.5	41.5
Liquidations						
Billions of dollars	286.4	304.5	309.4	318.5	320.6	318.6
Ratio to disposable income (percent)	17.5	16.7	16.3	16.4	16.3	16.1
Automobile credit						
Change in outstandings						
Billions of dollars	14.7	0.0	3.0	10.4	20.2	5.1
Percent	14.5	0.0	2.6	8.9	17.1	4.3
Extensions						
Billions of dollars	93.9	83.0	87.6	97.1	104.4	86.5
Revolving credit						
Change in outstandings						
Billions of dollars	8.6	2.9	4.6	6.3	7.0	10.1
Percent	19.9	5.5	8.4	11.3	12.3	17.4
Extensions						
Billions of dollars	120.2	129.6	134.8	141.7	144.9	148.2

1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.

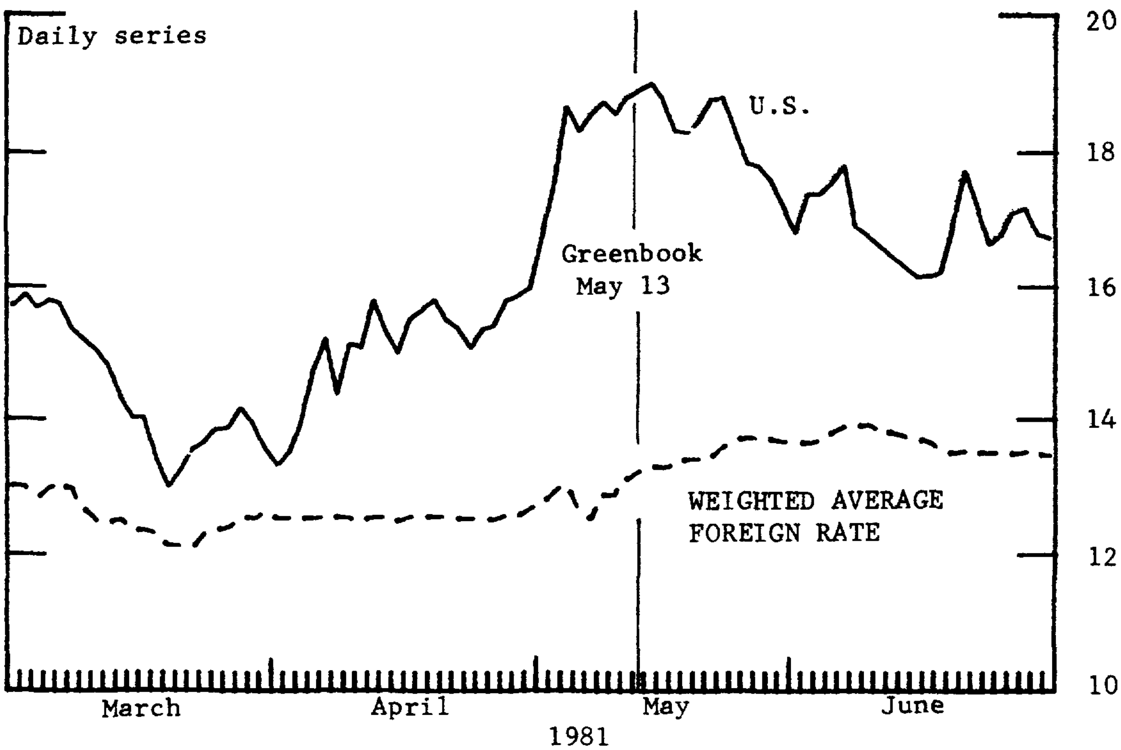
Foreign Exchange Markets

The dollar has appreciated by nearly 4-1/2 percent on a weighted-average basis since the May Greenbook. The weighted-average change consisted of bilateral appreciations of roughly 8 percent against the pound, 4-1/2 percent against the mark and other EMS currencies and 3-1/2 percent against the yen, with almost no net change against the Canadian dollar and a depreciation of about 1/2 percent against the Swiss franc. As shown by the chart on the next page, the weighted-average dollar climbed by nearly 5 percent between the date of the May Greenbook and early June, despite a decline of about 1-1/2 percentage points in dollar interest rates and increases in foreign interest rates of 70 basis points on average--about 4-1/2 percentage points in France and 1/4 to 1/2 percentage points in Japan, Germany, Switzerland and the United Kingdom. During this period, downward pressures on the EMS currencies were associated with the French elections, the increase in tensions over Poland, and the budget debate in Germany, which drew attention to Chancellor Schmidt's fragile political base and the uncertain support for restrictive economic policies. In addition, the pound weakened substantially during the first week of June when the reduction in Mexican oil prices was widely interpreted to forecast a similar reduction in British oil prices, as was subsequently announced on June 15. Since the second week of June movements in the dollar have been associated primarily with fluctuations in dollar interest rates as foreign interest rates on average have declined by 35 basis points.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR   March 1973=100



SELECTED 3-MONTH INTEREST RATES   Percent per annum



. The Desk has not intervened for U.S. official accounts since the end of March.

Within the European Monetary System the French franc fell to its lower intervention limit following the French elections on May 10

. Much of this weakening was reversed, however, after the new French administration acted on May 22 to support the franc by raising interest rates sharply, tightening controls on leads and lags in import payments and export receipts, and requiring that purchases of foreign securities by French residents be channeled through a securities franc market for foreign exchange in which the availability of foreign currency is limited to the proceeds of foreign security sales by French residents. At one point, following the appointment of Communists to the French cabinet in the latter part of June, the premium on the securities franc rose to nearly 7-1/2 percent. The Belgian franc declined to around its lower intervention limit during the second half of June

. The weakening of the Belgian franc has been associated with a decline of 2 percentage points in Belgian interest rates since the date of the May Greenbook.

The price of gold has declined by nearly 15 percent since the May Greenbook date and is currently around $425 an ounce. Silver prices have dropped from about $11 to around $8.50 an ounce since the May Greenbook, falling sharply at the end of June after Congress authorized limited sales of silver from the U.S. strategic stockpile.

U.S. International Transactions

The U.S. merchandise trade deficit in May was about the same as in April. For the two months combined the deficit was $30 billion annual rate; this was about one-third larger than the deficit for the first quarter. Exports in April/May combined declined marginally but imports rose 3 percent.

A drop in the value of agricultural exports during April/May more than accounted for the total export decrease from high first quarter levels. First quarter agricultural shipments were very strong to

U.S. Merchandise Trade*

	1980		1981			
	Year	4Q	1Q	Apr./May	April	May
Value (Bil. $, SAAR)						
Exports	224.0	228.6	244.5	241.3	246.6	236.0
Agricultural	42.2	44.3	50.9	45.2	45.6	44.9
Nonagricultural	181.7	184.3	193.5	196.1	201.0	191.1
Imports	249.3	250.9	262.9	271.5	275.6	267.4
Petroleum	78.9	77.3	83.3	84.7	93.8	75.7
Nonpetroleum	170.4	173.6	179.6	186.8	181.8	191.7
Trade Balance	-25.3	-22.3	-18.4	-30.2	-29.0	-31.5
Volume (Bil. 72$, SAAR)						
Exports - Agricultural	18.1	17.5	19.5	n.a.	17.9	n.a.
- Nonagric.	73.4	71.1	73.2	n.a.	74.7	n.a.
Imports - Petroleum	6.8	6.2	6.3	n.a.	6.8	n.a.
- Nonpetroleum	67.6	66.8	67.7	n.a.	68.8	n.a.

*/ International Transactions basis.
The merchandise trade data used in the International Transactions account is virtually the same as the trade data used in the GNP account. The only difference is that gold transactions are excluded from GNP data but are included in International Transactions data. In 1980 gold exports amounted to $4.0 billion, and gold imports excluded from GNP data amounted to $3.9 billion.

Eastern Europe (U.S.S.R.), Japan and Latin America. The April/May decline was largely in volume and was spread primarily among wheat, corn, soybeans, and cotton.

Nonagricultural exports increased somewhat in April/May from the strong first quarter level. Exports to Canada, a market for nearly one-fourth of our nonagricultural exports, provided much of the increase. Commodity categories with the largest increases were automotive parts for assembly in Canada, and civilian aircraft exports. Partly offsetting the increases was a 30 percent drop in coal exports from strong first quarter levels as the effect of the coal strike was felt.

Oil imports have shown sharp month-to-month fluctuations recently. On average, however, the value of oil imports in April/May was only marginally higher than in the first quarter; the volume of oil imports declined slightly while import prices on average rose 3 percent. The average price rise occurred despite a sharp decline in May import prices, by 95 cents per barrel. Official price reductions have been announced by various oil producing countries in an attempt to maintain export volume. As world demand has weakened, total OPEC production has declined but Saudi Arabia has continued to produce over 10 million barrels per day.

Oil Imports

	4Q80	1Q81	Apr/May	Feb.81	Mar.81	Apr.81	May 81
Volume (mbd,SA)	6.57	6.59	6.49	6.97	6.67	7.10	5.89
Price ($/BBL)	32.25	34.63	35.69	35.15	35.34	36.16	35.22
Value (Bil.$,SAAR)	77.3	83.3	84.7	88.7	72.4	93.8	75.7

Most of the increase in April/May imports was in commodity categories other than oil particularly steel, machinery, passenger cars shipped from Canada, and to a much lesser extent foreign cars and trucks. The rise in steel imports was by far the largest single increase; it was largely in pipe products which are in relatively short supply in the United States and in sheet steel. The value of foreign car and truck imports was marginally higher than their first quarter level. Sales of foreign cars in the United States have kept well ahead of imports since the beginning of the year and dealers' inventories have been drawn down steadily. In May as foreign car sales declined slightly inventories leveled off at about the low April level. The first year of the agreement by the Japanese to restrain passenger car exports to the United States began April 1. Offsetting these increases was a decline in food imports, particularly coffee and sugar.

U.S. International Capital Transactions. Beginning late in April and continuing through May, a substantial shift in the net position vis-à-vis their foreign offices took place at banks operating in the United States. As shown in the attached table, the daily average of the banks' net borrowings rose by more than $9 billion in May as compared to April, although there has been a partial reversal of this flow since late May. The net inflow in May occurred during a period of substantial upward pressure on the dollar's international value, associated in large measure with a rise in U.S. interest rates. As the dollar's value rose under this pressure, foreign authorities undertook to limit the extent of the movement through net dollar sales between late April and early June of some \$7 billion in foreign-exchange markets, of which \$4 billion or more was financed through sales of financial assets held at the New York Federal Reserve Bank (principally Treasury securities). In addition, holdings of other countries at the New York Bank declined, net, by over \$2 billion as U.K. and Swiss authorities reduced their holdings and other authorities acquired assets, including an net increase of nearly \$700 million in OPEC holdings. (U.K. authorities were mobilizing funds to repay international debts.)

Such a decline in credit to the U.S. economy from official sources abroad must be replaced by an increase in foreign private credit (absent a radical change in the current account); in this instance, the increase in private credit took the form of inflows to banking institutions in the United States through their foreign offices. Thus the improvement in market participants' views of prospects for the dollar's value, which was the source of the upward pressure on the dollar, was manifested in increased net claims (dollar deposits and repayments of borrowings) by foreigners on foreign offices of U.S. banks and increased holdings of U.S. Treasury securities by U.S. residents. The increased holdings of Treasuries were financed, directly or indirectly, by U.S.-located banking offices' borrowings from their foreign affiliates.

Banking Position Vis-a-vis Own Foreign Branches
(Billions of dollars, daily averages, net due to foreign offices = +)

	1980	1981					
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June*
All banks' net positions with own foreign offices	7.2	7.4	7.4	2.9	-1.4	7.9	4.9
(a) 10 largest member banks	-5.2	-6.8	-4.8	-5.5	-7.6	-3.5	-4.5
(b) All other member banks	-8.6	-8.5	-8.9	-10.2	-12.3	-8.8	-8.9
(c) Foreign based banks	21.8	23.5	22.1	19.8	19.9	21.5	19.4
(d) Nonmembers and Edge Corporations	-.8	-.8	-.9	-1.3	-1.3	-1.3	-1.1

SOURCE: Required-reserve reports
*/ June figures are through the 17th.

The U.S. current account surplus increased to $12.3 billion annual rate in the first quarter from a surplus half that size in the fourth quarter of 1980. See the table below. While part of the increase resulted from the smaller trade deficit, net investment income receipts also increased. Unilateral transfer payments declined from a high fourth quarter figure that reflected a bunching of U.S. government grants to Israel. Partly offsetting these net increases was a sharp increase in U.S. travel expenditures abroad and a reduction in direct investment income receipts. The drop in receipts resulted primarily from weaker manufacturing profits abroad, primarily in the automobile, chemical and computer industries.

U.S. Current Account
(in billions of dollars, SAAR)

	1980 Year	1980 Q3	1980 Q4	1981 Q1	$ change Q1 - Q4
U.S. Current Account	3.7	19.9	5.6	12.3	6.7
Trade balance	-25.3	-11.6	-22.3	-18.4	3.9
Net investment income	32.8	32.6	33.0	35.5	2.5
Direct, net	27.5	26.2	26.6	24.8	-1.8
Other, net	5.3	6.4	6.4	10.7	4.3
Other transactions, net	-3.8	-1.1	-5.1	-4.8	0.3
Travel (incl. passenger fares)	-1.3	-1.0	-1.0	-3.8	-2.8
Transportation, net	0.5	0.9	0.7	1.3	0.6
Military, net	-2.5	-1.8	-2.9	-2.8	0.1
Fees and royalties	6.1	6.4	6.5	6.0	-0.5
Unilateral transfers	-7.1	-6.0	-9.4	-6.0	3.4
Other	0.5	0.4	1.0	0.5	-0.5

U.S. INTERNATIONAL TRANSACTIONS
IN MILLIONS OF DOLLARS; RECEIPTS, OR INCREASE IN LIABILITIES,+

	1979 YEAR	1980 YEAR	1980 QII	1980 QIII	1980 QIV	1981 QI	1981 FEB.	1981 MAR.	1981 APR.
1. CHANGE IN NET FOREIGN POSITIONS OF BANKING OFFICES IN U.S. (EXCL. LIAB. TO FOREIGN OFF. INST.)	14697	-29847	-22594	-11084	-4410	-9883	-56	-15549	7,111
THROUGH INTERBANK TRANSACTIONS WITH									
A. OWN OFFICES IN FOREIGN COUNTRIES	20683	-12803	-18065	-2129	910	-11400	-1948	-11988	6,816
B. UNAFFILIATED BANKING OFFICES IN FOR. COUNTRIES	3820	-6231	-2250	-4366	-2543	2086	1494	-2055	384
THROUGH NONBANK TRANSACTIONS									
A. CLAIMS ON NONBANKS IN FOREIGN COUNTRIES (INC.,-)	-12130	-11826	-3206	-4260	-3708	-941	-29	-1329	-682
B. LIABILITIES TO PRIVATE NONBANKS IN FOREIGN COUNTRIES (INC. CUSTODY LIAB.)	2324	1013	928	-329	931	373	427	-177	593
2. PRIVATE SECURITIES TRANSACTIONS, NET - EXCL. U.S. TREAS	-3349	2547	-665	-579	2120	1960	788	624	92
A. FOREIGN NET PURCHASES OF U.S. CORP. BONDS	256	1213	213	203	358	758	397	208	211
B. FOREIGN NET PURCHASES OF U.S. CORP. STOCKS	1037	4264	346	37	1883	1690	349	744	638
C. U.S. NET PURCHASES (-) OF FOREIGN SECURITIES	-4641	-2929	-1224	-818	-120	-488	42	-328	-757
3. FOREIGN NET PURCHASES OF U.S. TREASURY OBLIGATIONS 1/	4821	2680	-1261	-254	894	1404	802	632	-458
4. CHANGE IN FOREIGN OFFICIAL RESERVE ASSETS IN U.S. (INCREASE+)	-13,079	14,856	7,136	7,605	7,508	5,330	-394	7,348	545
BY AREA									
A. G-10 COUNTRIES AND SWITZERLAND	-21,121	2,539	1,272	1,351	5,525	1,880	-1,188	1,577	-782
B. OPEC	6,540	12,093	4,230	3,850	737	5,455	1,285	4,392	1,969
C. ALL OTHER COUNTRIES	1,500	5,303	1,633	2,405	1,245	-2,005	-491	1,378	-642
BY TYPE									
D. U.S. TREASURY SECURITIES 2/	-21,636	9,684	4,360	3,769	6,911	7,055	1,551	4,360	1,623
E. OTHER 3/	8,557	5,172	2,776	3,836	597	-1,725	-1,157	2,988	-1,078
5. CHANGE IN U.S. RESERVE ASSETS (INCREASE-) 4/	-306	-7,800	-452	-1,051	-3,762	-3,654	-1,366	-728	717
6. TRADE BALANCE 5/	-27,346	-25,342	-6,744	-2,902	-5,570	-4,602	-1,654	-718	-2,577
7. ALL OTHER TRANSACTIONS AND STATISTICAL DISCREPANCY	24,562	42,906	24,580	8,265	3,220	9,445	1,880	8,391	-5,430
MEMO:									
BIL. $ SEASONALLY ADJ. ANNUAL RATES MERCHANDISE TRADE BALANCE	-27.3	-25.3	-27.0	-11.6	-22.3	-18.4	-19.8	-8.6	-30.9
CURRENT ACCOUNT BALANCE	1.4	3.7	-2.2	19.9	5.6	12.3	n.a.	n.a.	n.a.

1/ INCLUDES U.S. TREASURY NOTES PUBLICLY ISSUED TO PRIVATE FOREIGN RESIDENTS.
2/ INCLUDES NON-MARKETABLE AND MARKETABLE SECURITIES.
3/ INCLUDES DEPOSITS IN BANKS, COMMERCIAL PAPER, ACCEPTANCES, & BORROWING UNDER REPURCHASE AGREEMENTS.
4/ INCLUDES NEWLY ALLOCATED SDR'S OF $1,139 MILLION IN JANUARY 1979, $1,152 MILLION IN JANUARY 1980; AND $1,093 MILLION JANUARY 1981.
5/ INTERNATIONAL ACCOUNTS BASIS, SEASONALLY ADJUSTED.

Foreign Economic Activity. While economic activity still remains relatively weak in the major foreign industrial economies as a whole, there are tentative signs of strengthening in recent data for some countries. The pace of real growth in both Germany and Japan quickened in the first quarter, although in both cases private consumer demand remained soft, and in Japan, industrial production in April and May was weak. In Italy and Canada, first-quarter real growth, although positive, was below fairly strong fourth-quarter rates. GDP fell in the United Kingdom in the first quarter, but industrial production data through April suggest that the prolonged slump there may be nearing an end. Based on preliminary first-quarter data, GNP appears to have declined in France as well, but recent French surveys indicate that activity may have stabilized. In all countries, unemployment remains at high levels.

No discernable overall trend has been evident in recent price and wage developments, although in some countries depreciation, particularly against the dollar, has contributed to additional upward pressure on prices. Inflation appears to have abated somewhat in Germany, but France, Italy, and Canada have gained little ground in their effort to reduce inflation -- despite a continuation of relatively tight monetary policies.

Progress in the reduction of recent large current-account deficits in the major industrial economies has been, at best, halting and uneven. Despite some improvement in April, the cumulative German deficit for the first four months of 1981 still exceeds that of the previous four months. Also in April there was some contraction in the small Japanese current-account surplus, due in part to an increased deficit on invisibles, and in Canada the trade account weakened slightly. Moderate trade-account gains seen in Italy in recent months can be attributed in part to earlier depreciation of the lira.

Individual Country Notes. Recently released GNP data for Japan in the January-March quarter confirm the previously reported slow advance of the domestic economy. Although real GNP rose by about 4-1/2 percent (s.a.a.r.) in the first quarter, up from 2 percent in the previous quarter, most of the strength was in government consumption and government investment. Only small gains were made in private consumption, while increases in net exports and private equipment investment -- two components that previously had been sources of strength -- were minimal. Although the impression of continued softness in the Japanese economy is supported by a sharp drop in the industrial production index in May, recent assessments by the Bank of Japan and the Japanese Economic Planning Agency suggest that the pace of recovery -- particularly of personal consumption -- may have picked up recently.

Upward pressure on wholesale prices appears to have intensified somewhat in May, as the WPI rose by more than 0.8 percent. A large part of the increase was due to the 2-1/2 percent depreciation of the yen against the dollar in May; the yen-based price indices for both exports and imports rose in May by a like amount. The CPI, however, fell by 0.5 percent in June to a level about 4-1/4 percent above its year-ago level. The average 7-1/2 percent wage settlement (only slightly above last year's increase of about 7 percent) agreed to in this year's recently completed round of spring labor negotiations, together with expected productivity gains, has enhanced the prospects for maintaining control over inflation for at least the next twelve months.

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

					1979		1980				1981	1981			
		1978	1979	1980	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Canada:	GNP	3.4	2.6	0.6	1.1	0.5	-0.2	-1.0	0.2	2.3	1.0	*	*	*	*
	IP	5.3	2.1	-1.5	1.8	-0.5	-0.6	-2.5	-0.1	2.3	0.4	0.8	1.5	n.a.	n.a.
France:	GDP	4.0	3.7	2.5	2.1	0.4	0.4	-0.5	0.3	-0.7	n.a.	*	*	*	*
	IP	1.9	4.7	-1.1	3.8	-2.2	0.5	-2.2	0.5	-2.7	-4.1	-1.6	4.1	-1.6	n.a.
Germany:	GNP	3.6	4.5	1.8	0.7	0.8	2.1	-2.1	0.0	-0.5	0.7	*	*	*	*
	IP	2.0	5.3	0.0	1.5	0.3	0.9	-2.4	-1.2	-2.2	2.2	5.7	-3.6	0.9	n.a.
Italy:	GDP	2.6	5.0	4.0	1.2	4.0	2.1	-0.9	-2.7	2.0	0.3	*	*	*	*
	IP	1.9	6.5	5.8	1.4	8.5	4.2	-2.7	-7.5	5.3	0.6	7.5	-0.8	-0.5	n.a.
Japan:	GNP	6.0	5.9	5.5	1.7	1.1	1.8	0.8	1.5	0.5	1.1	*	*	*	*
	IP	6.2	8.3	7.1	2.0	2.6	4.1	0.2	-2.3	1.6	1.7	0.6	-0.7	0.3	-1.6
United Kingdom:	GDP	2.8	1.5	-2.1	-1.9	1.5	-0.9	-1.5	-1.5	-0.7	-0.3	*	*	*	*
	IP	3.6	2.7	-6.8	-1.9	0.0	-2.3	-3.2	-3.1	-2.8	-1.7	0.7	-0.1	-0.2	n.a.
United States:	GNP	4.8	3.2	-0.2	1.0	0.2	0.8	-2.6	0.6	0.9	2.1	*	*	*	*
	IP	5.8	4.4	-3.6	0.2	-0.1	0.0	-5.2	-1.7	4.9	1.8	-0.1	0.5	0.1	0.3

* GNP data are not published on monthly basis.

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

	1980				1981		1981					MEMO: Latest 3 Months from Year Ago
	Q1	Q2	Q3	Q4	Q1	Q2	Feb.	Mar.	Apr.	May	June	
anada: CPI	2.2	2.8	2.8	2.8	3.2	n.a.	1.0	1.3	0.7	0.9	n.a.	12.5
WPI	4.9	1.1	2.8	3.2	2.4	n.a.	0.0	1.0	0.7	n.a.	n.a.	10.2
rance: CPI	3.8	3.1	3.2	2.8	3.0	n.a.	0.9	1.0	1.4	0.9	n.a.	12.6
WPI	3.1	0.8	0.6	3.4	1.5	n.a.	1.1	0.9	1.3	n.a.	n.a.	6.8
ermany: CPI	1.9	1.8	0.7	0.8	2.2	1.8	0.7	0.7	0.7	0.4	0.5	5.6
WPI	3.8	1.7	-0.2	0.7	3.9	n.a.	1.3	1.7	0.6	0.1	n.a.	7.0
taly: CPI	6.5	3.9	4.3	5.3	5.2	n.a.	1.8	1.4	1.4	1.4	n.a.	20.3
WPI	6.6	3.6	2.3	3.8	4.9	n.a.	1.6	1.6	1.7	n.a.	n.a.	15.6
apan: CPI	2.0	3.0	1.1	1.2	1.3	1.1	0.2	0.6	0.3	0.8	-0.5	4.8
WPI	6.4	4.8	0.7	-0.7	-0.7	n.a.	-0.2	0.0	0.5	0.8	n.a.	0.6
nited Kingdom: CPI	4.7	5.8	2.2	1.9	2.4	n.a.	0.9	1.5	2.9	0.7	n.a.	12.2
WPI	5.3	4.0	2.3	1.2	3.0	n.a.	1.0	1.3	1.4	0.6	n.a.	10.4
nited States: CPI(SA)	3.9	3.1	1.9	3.1	2.6	n.a.	1.0	0.6	0.4	0.7	n.a.	10.1
WPI(SA)	3.9	2.5	3.3	2.1	2.3	n.a.	0.6	1.3	0.8	0.4	n.a.	10.5

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

	1979	1980	1979 Q3	1979 Q4	1980 Q1	1980 Q2	1980 Q3	1980 Q4	1981 Q1	1981 Mar.	1981 Apr.	1981 May
Canada: Trade	3.4	6.9	0.9	1.3	1.5	1.1	1.8	2.5	1.5	0.4	0.1	n.a.
Current Account	-4.2	-1.3	-0.9	-0.8	-0.7	-0.9	-0.1	0.4	n.a.	*	*	*
France: Trade[b]	-2.4	-14.2	-1.4	-1.3	-3.4	-3.5	-4.0	-3.2	-2.7	-0.7	-0.4	-0.6
Current Account[b]	1.1	-7.6	0.6	-0.4	-2.6	-1.2	-1.8	-2.0	-2.1	*	*	*
Germany: Trade	12.2	5.1	2.3	1.6	1.7	1.3	1.2	0.9	0.1	-0.4	1.2	n.a.
Current Account (NSA)	-5.6	-15.6	-4.7	-0.8	-3.2	-3.7	-6.9	-1.9	-4.4	-1.3	-0.2	n.a.
Italy: Trade	-5.2	-22.6	-1.0	-3.4	-4.1	-4.4	-8.6	-5.5	4.5	-1.4	-1.6	n.a.
Current Account (NSA)	5.5	-9.8	2.3	-0.3	-4.4	-1.5	-1.0	-2.9	n.a.	*	*	*
Japan: Trade[b]	1.8	2.1	-1.0	-1.6	-1.9	-0.9	1.7	2.8	3.3	1.0	1.9	1.7
Current Account	-8.8	-10.8	-3.4	-4.3	-5.1	-4.1	-1.6	0.4	-0.9	-0.4	0.8	0.2
United Kingdom: Trade	-7.4	2.9	-1.1	-1.7	-0.9	-0.7	1.5	3.0	n.a.	n.a.	n.a.	n.a.
Current Account[b]	-3.5	6.5	-0.4	-1.2	-0.2	-0.2	2.1	4.5	n.a.	n.a.	n.a.	n.a.
United States: Trade	-29.4	-25.3	-7.1	-9.2	-10.1	-6.7	-2.9	-5.6	-4.6	-0.7	-2.4	-2.6
Current Account	1.4	3.7	1.1	-0.2	-2.1	-0.5	5.0	1.4	3.1	*	*	*

a The current account includes goods, services, and private and official transfers.
b Quarterly data are subject to revision and are not consistent with annual data.
* Comparable monthly current account data are not published.

The Japanese current-account surplus contracted in May by about $300 million to slightly over $1/2 billion. This drop resulted from a decline in Japanese exports and a continued expansion of the deficit in the services and transfers account (to a $1.2 billion level) caused in part by larger interest payments. Long-term capital inflows strengthened in May following the substantial net outflow of the previous month. Net foreign portfolio investment in Japan in May was about $400 million, but there were net foreign sales of Japanese bonds. Because of recent declines in government bond prices in the secondary market the government has been obliged to raise the yield on new issues to the financial syndicate.

First-quarter GNP growth in Germany was surprisingly strong at 2.7 (s.a.a.r.) percent over the fourth quarter of last year. This unexpected strength came largely from the export sector where decline of the D-mark has made German products more competitive. Demand for capital goods also provided strength, but the domestic consumer sector was flat, and construction declined further.

Industrial production in April rose by about 1 percent after a 3.5 percent decline in March. The average of the index for the first four months of this year was about 2 percent (s.a.) above that of the preceding four-month period. The rate of unemployment has been rising steadily since the spring of 1980 and in May reached 5.3 percent (s.a.) which is a post-War record.

The consumer price index in Germany rose by 0.5 percent in June, following a 0.4 percent increase in May. The annualized rate this year through June, however, was about 8 percent. Strong acceleration earlier and the recent slowing of consumer prices reflects, at least partly, a similar previous movement of import prices, which rose at an average monthly rate of 3 percent earlier this year and were flat in April.

The trade deficit for the first four months of 1981 has increased in comparison with the last four months of 1980, largely on the basis of an adverse movement in the terms of trade. In April, however, there was a marked improvement in the trade account, which moved from near balance (n.s.a.) in January-March to a surplus of $1.5 billion.

Money-market interest rates in Germany rose sharply in response to the special Bundesbank policy measures of February 19 and have remained at these higher levels. Long-term interest rates responded more gradually but are now also significantly above their February levels. While the Bundesbank has acknowledged its concern with the exchange rate as a major factor in its interest rate policy, it has rejected the claims that monetary policy is too tight for domestic conditions. Central Bank Money, the Bundesbank's targeted variable, has moved in the middle of the 4 to 7 percent target range through May.

In the United Kingdom, real GDP declined by about 1 percent (s.a.a.r.) in the first quarter of 1981 -- the fifth consecutive quarter in which GDP has fallen. Nevertheless the rate of decline is slowing, and data on industrial production seem to indicate a bottoming out of economic activity. The rise in industrial production (s.a.) in February was followed by two months of very small decreases, and in April the level of production was above that prevailing in January. Consumer prices increased by only 3/4 percent in May, considerably below the rates of inflation recorded in March and April when increases in various indirect taxes and public charges boosted the consumer price index. Wage inflation has moderated in 1981. In the 6 months to April 1981, average wage earnings increased at an annual rate less than 10 percent (s.a.), about one-half the rate of growth in wages during 1980. On the other hand, the price index for materials purchased by U.K. manufacturers has been rising sharply. In May 1981 it rose 2-1/4 percent, and in the 6 months to May it increased by some 23-1/2 percent (a.r.). This rise in the cost of materials reflects in part the decline in the external value of the pound (particularly against the dollar). A labor dispute involving civil servants has prevented the U.K. government from publishing data on trade and the current account for recent months.

In France, preliminary data suggest that GDP fell by nearly 4 percent (s.a.a.r.) in the first quarter following a decline of about 3 percent in the fourth quarter of last year. First-quarter consumption expenditure was unchanged, but investment expenditure fell nearly 5 percent below the previous quarter's level primarily because of weakness in private-sector business investment. Recent survey data indicate that the fall in investment has stabilized, but orders and other investment demand indicators still are weak, and inventories remain excessive.

In May, inflation in France returned to the first-quarter level of roughly 1 percent a month, after an acceleration in April. Wholesale prices over the past year have risen by about 7 percent.

The French trade balance in the first quarter was in deficit by roughly \$2-3/4 billion, an improvement of \$1/2 billion over the previous quarter and an improvement of nearly \$3/4 billion from the first quarter of 1980. In April-May the trade balance has improved further, primarily because of the slow pace of activity in France.

Policy measures of the new Mitterrand Socialist government are now being announced weekly. Measures announced so far include an increase of 10 percent in the minimum wage, a 20 percent increase in old-age pensions, and a 25 percent increase in family allowances, allowances for the handicapped, and housing allowances. The housing allowance will be raised by another 25 percent at year-end. These measures are expected to increase the general government deficit by 6-8 billion francs (about 0.2 percent of GDP) in 1981. The government also plans to spend an additional 6.8 billion francs on "youth employment pacts", public employment, additional loans and assistance to business, housing, and social programs for the agricultural sector. One-time taxes on those earning high incomes in 1980, taxes on oil company and bank profits, as well as new taxes on business expenses and luxury hotels are expected to offset the new expenses this year.

The June credit controls were loosened to allow an additional 5 billion francs in credit, which will add less than 1/2 percent to monetary growth for the year if not repeated. Banks have agreed to reduce commerical discount rates for short-term small and medium business loans. Short-term interest rates in France have risen recently to almost 20 percent from their roughly 13 percent average level in April, providing some support for the franc, and capital controls have been reimposed.

In Canada real GNP growth in the first quarter of this year was 4 percent (s.a.a.r.), which is down from the upward-revised fourth-quarter 1980 real growth rate of 9.2 percent (s.a.a.r.). This moderation in real growth was accompanied by an acceleration in consumer price inflation despite continued high short-term nominal interest rates established at the end of 1980. (At present the Bank Rate is more than 19 percent.) For the most recent three-month period (March to May) the consumer price index rose more than 13 percent (a.r.), compared with an almost 12 percent increase in the previous three-month period. In April of this year, the trade-account surplus fell to $104 million from $415 million in March. For the first four months of this year, however, the surplus remained larger than that recorded for the same period in 1980.

In Italy, economic activity in the early months of the year has continued to show signs of recovery after 1980's sharp mid-year drop. In the first quarter industrial production was slightly stronger than in the last quarter of 1980, but it declined slightly in April. Recently released data indicate that GDP in the first quarter rose 1.3 percent (s.a.a.r.) after an 8.4 percent increase in 1980 QIV. The two main sources of recovery appear to be the external sector and investment goods. The depreciation of the lira, which has allowed Italy to regain some of its lost competitiveness, has probably led to a strengthening of exports and to domestic substitution for imported goods.

Consumer prices rose in May by 1.4 percent, the same rate as in the previous two months; this marked a deceleration from the 1.8 percent average monthly rate for the six months ending in March. However, wholesale prices have recently accelerated, presaging a fresh acceleration of consumer prices in the future.

The trade balance continued to show improvement in the first four months of 1981, with an average monthly deficit of $1.5 billion compared with an average monthly deficit in the previous six months of $2.3 billion. In addition to the effects of improved competitiveness, a reduction of speculative inventory imports helps account for the improvement.

The Forlani government fell at the end of May, while it was trying to implement its economic stabilization program designed to reduce inflation and stabilize the exchange rate. As one element of the program, the authorities had proposed a package of spending cuts and tax increases to stem the increase in the burgeoning public sector deficit. This package, which had not received Parliamentary approval, was enacted -- temporarily -- through decree laws. Its fate under the new Spadolini government is as yet undetermined.

The huge growth in the public-sector deficit, and the consequent pressure on the Bank of Italy to finance part of it, has led to substantial monetary-base creation through this channel. Primarily in order to absorb the monetary base, the Italian authorities on May 27 imposed an import deposit scheme, requiring a 30 percent deposit on foreign payments (with certain exclusions) to be held in a non-interest-bearing account for 90 days.

In the Netherlands real activity remains slow. Industrial production (s.a.) rose slightly in April, but remained below the peak rate achieved in May 1980. The unemployment rate increased slightly to 8.6 percent (s.a.) in May. The current-account surplus of $0.6 billion recorded in the first quarter of 1981 was an improvement of over $1.5 billion from the previous quarter. Regularly scheduled elections in May resulted in the loss of the necessary majority for the existing coalition government.

Efforts by Prime Minister van Agt to form a new coalition and remain in power continue.