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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

May 17, 1974

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

GNP. Gross national product rose \$14.7 billion in the first quarter to a seasonally adjusted annual rate of \$1352.2 billion, according to the Commerce Department revised estimates. This rise in total expenditures, only slightly greater than shown by the preliminary figures, indicates that inventory investment, at \$5.5 billion annual rate, was somewhat less and final sales, up \$27.3 billion annual rate, were somewhat larger than estimated a month ago. This additional strength in final sales vis a vis the preliminary estimates reflects a larger advance in government purchases of goods and services (Federal nondefense and State and local) and a smaller decline in net exports of goods and services; private final purchases excluding net exports are slightly less than estimated a month ago.

The rise in GNP in the first quarter stemmed from advances in consumer expenditures for nondurable goods and services, government purchases of goods and services, and business fixed investment. Inventory investment, residential construction outlays, net exports of goods and services--although both exports and imports rose sharply, and consumer expenditures for durable goods declined from the fourth quarter of last year.

Price data for the entire quarter now show a greater rise in the alternative GNP measures of prices than anticipated earlier. The GNP implicit price deflator rose at an annual rate of 11.5 percent, instead of 10.8 percent, and the GPP (Gross Private Product) fixed

weighted price index rose a full percentage point annual rate faster than indicated by the preliminary estimates: at a 13.5 percent annual rate instead of 12.5 percent.

Real GNP is now estimated to have declined at a 6.3 percent annual rate, as compared with the 5.8 percent decline indicated earlier. Of the major expenditure categories only net exports and government purchases rose in real terms in the first quarter. Gross Private Product declined at a 7.1 percent annual rate. Total final purchases in real terms declined at a 2.2 percent annual rate, and real private final purchases excluding net exports of goods and services declined at a 4.7 percent annual rate.

May 17, 1974

F.R. Confidential

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarterly figures at annual rates.)

	1973-IV		1974-I			
	Amount	Change	Prel. 4/18/74	Change	Final 5/17/74	Change
		from 73-III	Amount	from 73-IV	Amount	from 73-IV
Gross National Product	1337.5	33.0	1351.8	14.3	1352.2	14.7
Final purchases	1319.4	19.6	1344.0	24.6	1346.7	27.3
Private	1033.8	13.0	1048.1	14.3	1048.9	15.1
Excluding net exports	1021.0	7.8	1038.6	17.6	1038.0	17.0
Personal consumption expenditures	825.2	9.2	844.6	19.4	844.6	19.4
Durable goods	125.6	-7.2	124.5	-1.1	125.0	-.6
Nondurable goods	349.6	8.0	362.3	12.7	362.3	12.7
Services	350.0	8.4	357.8	7.8	357.3	7.3
Gross private domestic investment	213.9	11.9	201.8	-12.1	198.9	-15.0
Residential construction	54.0	-5.2	49.5	-4.5	49.3	-4.7
Business fixed investment	141.8	3.8	144.4	2.6	144.1	2.3
Change in business inventories	18.0	13.3	7.8	-10.2	5.5	-12.5
Nonfarm	17.3	14.1	6.8	-10.5	5.0	-12.3
Net exports of goods and services	12.8	5.2	9.5	-3.3	10.9	-1.9
Exports	116.4	11.9	125.9	9.5	130.4	14.0
Imports	103.6	6.6	116.4	12.8	119.4	15.8
Gov. purchases of goods and services	285.6	6.6	295.9	10.3	297.8	12.2
Federal	106.8	.0	111.3	4.5	112.1	5.3
Defense	73.0	-1.2	76.2	3.2	76.3	3.3
Other	33.8	1.1	35.1	1.3	35.8	2.0
State and local	178.8	6.6	184.6	5.8	185.7	6.9
GNP in constant (1958) dollars	844.6	3.3	832.0	-12.6	831.0	-13.6
Personal income	1078.9	31.8	1093.9	15.0	1094.4	15.5
Wage and salary disbursements	717.2	17.9	726.0	8.8	726.2	9.0
Disposable personal income	917.8	26.7	930.5	12.7	931.4	13.6
Personal saving	67.1	16.0	60.6	-6.5	61.5	-5.6
Saving rate (per cent)	7.3	--	6.5	--	6.6	--
Corporate profits and I.V.A.	111.9	-.1	107.5*	-4.4*	108.9	-3.0
Corporate profits before tax	127.4	-1.6	138.4*	11.0*	140.1	12.7
-----Per Cent Change at Annual Rate-----						
Gross National Product		10.5		4.4		4.5
Gross Private Product		10.3		3.8		3.9
Gross Private Nonfarm Product		7.8		3.7		3.9
GNP in constant prices		1.6		-5.8		-6.3
GPP in constant prices		1.5		-6.5		-7.1
GPNNFP in constant prices		-.1		-6.2		-6.7
GNP implicit price deflator		8.8		10.8		11.5
GNP fixed weighted price index		8.9		11.5		12.4
GPP fixed weighted price index		8.6		12.5		13.5

* FR staff estimates.

Personal income. Personal income increased by \$7.0 billion (annual rate) in April, following a (revised) \$6.6 billion advance in March. Personal income has been increasing at an average \$7 billion monthly rate since January, compared with the \$8-3/4 billion average monthly gain in 1973.

Wage and salary disbursements rose by \$4.3 billion in April reflecting a 125,000 advance in payroll employment and a substantial increase in hourly earnings.

A number of special factors affected nonwage income in April. Rental and proprietors' incomes were reduced about \$1.0 billion as a result of damage from tornadoes in April, and farm income declined sharply as a result of lower prices received by farmers and higher farm production expenses. Transfer payment increased \$5.0 billion--about \$3.7 billion was due to a 7 percent rise in social security benefits, and \$.7 billion because of an increase in the number of states paying extended unemployment insurance benefits.

PERSONAL INCOME
(Billions of dollars; seasonally adjusted at annual rates)

	1974		March 1974- April 1974
	March	April	
Total personal income	1101.4	1108.4	7.0
Wage and salary disbursements	730.2	734.5	4.3
Government	153.7	154.4	.7
Private	576.5	580.1	3.6
Manufacturing	203.9	205.2	1.3
Other	372.6	374.9	2.3
Nonwage income	418.6	421.4	2.8
Less: Personal contributions for social insurance	47.4	47.5	.1
Addenda:			
Total nonagricultural income	1063.3	1073.5	10.2
Total agricultural income	38.1	34.9	-3.2

Construction and real estate. Seasonally adjusted private housing starts increased 10 percent in April. While such starts have fluctuated sharply in recent months, the annual rate of 1.63 million units in April was about the same as the first quarter average and 3 percent above the low in the fourth quarter of last year. Building permits for new residential units declined 10 percent in April--the first month-to-month decline since last December.

Completions of new dwelling units in the first quarter of 1974 remained close to the advanced 1.9 million unit annual rate of late last year. Partly reflecting shortages of some types of materials, units under construction have stayed quite high, and at the end of March they totaled nearly 1.6 million.

Mobile home shipments remained low in the first quarter, showing virtually no change from the fourth quarter of 1973.

NEW HOUSING UNITS
(Seasonally adjusted annual rates, in millions of units)

	1973	1974			Percent change in	
	QIV(r)	QI(r)	Mar. (p)	Apr. (p)	April from: Month ago	Year ago
Permits	1.29	1.37	1.46	1.32	- 10	- 32
Starts	1.58	1.62	1.48	1.63	+ 10	- 24
1-family	.89	.94	.96	.98	+ 2	- 20
2- or more-family	.70	.69	.52	.64	+ 23	- 30
Under construction <u>1/</u>	1.65	1.56	1.56	n.a.	- 4 <u>2/</u>	- 7 <u>2/</u>
Completions	1.93	1.89	1.87	n.a.	-- <u>2/</u>	- 13 <u>2/</u>
MEMO:						
Mobile home shipments	.47	.46	.48	n.a.	+ 6 <u>2/</u>	- 32 <u>2/</u>

1/ Seasonally adjusted, end of period.

2/ Percent changes based on March.

Autos. Sales of new domestic-type autos in the first 10-day period of May were at a 7.2 million unit annual rate, 8 percent below the rate for the month of April and 30 percent below the rate for the same period a year earlier.

The imbalance between stocks of large and small cars which occurred during the winter appears to have been alleviated. By the end of April, stocks of both large and small cars were equivalent to a 58 days' supply. The level of stocks, however, is still somewhat above the norm for this time of year for both size classes of vehicles.

CORRECTIONS

Page I-21 second paragraph line 3 should read:
..."the second quarter of 1968, it was well below
the peak reached in 1965.

Page III-1 The revised trade deficit for March is
\$2.9 billion annual rate, rather than \$4.4 billion.

Page III-9 The first quarter trade surplus, line 8,
was \$290 million, not \$160 million.

INTEREST RATES

	1974			
	Highs	Lows	April 15	May 16
Short-Term Rates				
Federal funds (wkly. avg.)	11.46(5/15)	8.81(2/27)	10.02(4/10)	11.46(5/15)
3-month				
Treasury bills (bid)	8.90(4/30)	6.93(2/6)	7.95	7.94
Comm. paper (90-119 day)	11.00(5/16)	7.75(2/22)	9.75	11.00
Bankers' acceptances	11.50(5/16)	8.13(2/25)	10.00	11.50
Euro-dollars	12.19(5/14)	8.25(2/18)	10.50(4/16)	11.75
CD's (NYC) 90-119 day				
Most often quoted new	11.00(5/15)	7.88(2/20)	9.75(4/10)	11.00(5/15)
6-month				
Treasury bills (bid)	8.86(5/6)	6.80(2/19)	8.21	8.10
Comm. paper (4-6 mo.)	10.88(5/16)	7.50(2/22)	9.63	10.88
Federal agencies	9.69(5/7)	7.16(2/19)	8.93	9.18
CD's (NYC) 180-269 day				
Most often quoted new	9.75(5/15)	7.50(2/27)	8.75(4/10)	9.75(5/15)
1-year				
Treasury bills (bid)	8.65(5/3)	6.37(2/15)	7.86	8.08
Federal agencies	9.40(5/9)	7.01(2/19)	8.67	9.15
CD's (NYC)				
Most often quoted new	9.25(5/15)	7.00(2/27)	8.00(4/10)	9.25(5/15)
Prime municipals	5.75(5/10)	3.70(2/15)	5.40(4/12)	5.35(5/17)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.56(5/7)	6.72(2/14)	7.75	8.12
20-years	8.23(5/6)	7.40(1/4)	7.93	8.12
Corporate				
Seasoned Aaa	8.38(5/9)	7.73(1/2)	8.27	8.35
Baa	9.08(5/16)	8.54(1/2)	8.89	9.08
New Issue Aaa Utility	9.27(5/10)	8.05(2/13)	9.13(4/12)	9.22(5/17)
Municipal				
Bond Buyer Index	6.04(5/16)	5.16(2/6)	5.75(4/11)	6.04(5/16)
Mortgage--average yield				
in FIMA auction	9.34(5/6)	8.43(2/25)	8.95(4/8)	9.34(5/6)

International Developments

Revised data for first quarter 1974 net exports of goods and services were published today (Friday, May 17) in the GNP press release. They indicate a \$1.9 billion (annual rate) worsening in net exports of goods and services since the fourth quarter of last year. This compares with the larger decline reported in the Greenbook (\$3.9 billion annual rate, balance of payments data). An upward revision in the first quarter merchandise trade balance accounts for part of the improved first quarter outlook, but the higher estimate for net services is by far the greater influence. The increase in net services is largely attributable to a stronger estimate for income receipts from foreign investments (particularly foreign operations of oil companies.)

SUPPLEMENTAL APPENDIX A *
MONTHLY LOAN COMMITMENT SURVEY
MARCH 1974

The most recent Monthly Loan Commitment Survey at 131 large banks indicate that the level of unused commitments declined during March. For the first quarter of 1974, the rate of growth of unused commitments was down sharply from the fourth quarter of 1973--a 12.2 per cent annual rate in the fourth quarter (month-end to month-end of quarter, not seasonally adjusted) versus a 5.7 per cent rate in the first quarter (Table 1). The slower growth of unused commitments was to be expected given the rapid pace of takedowns in the first quarter, especially in March when in one month total loans under commitments increased 5.4 per cent (Table 2). The moderation in unused commitment growth may also be in part seasonal, but seasonal adjustment factors are not available due to short span of the monthly series.

Business loans in the first quarter provided most of the growth of loans made under commitments. Outstanding real estate loans, in contrast, have remained virtually unchanged, while loans to nonbank financial institutions remain below their December peak.

The volume of new commitments in March was the largest on record, but expirations and cancellations also were large. And since there was a considerable volume of takedowns in the month, unused commitments on balance declined (Table 3).

The utilization ratios rose broadly in response to the heavy takedowns and declining unused commitments in March (Table 4). In fact, the utilization ratios for business loans and for real estate mortgages reached their highest levels reported since the monthly survey began in the middle of last year.

* Prepared by Paul W. Boltz, Economist, Banking Section, Division of Research and Statistics.

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF MAR. 31, 1974)

TABLE 1 - UNUSED COMMITMENTS
(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FIRMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS		QUARTERLY % CHG NSA, AR
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	
JULY 31	76.5	0.0	5.1	0.0	17.8	0.0	25.7	0.0	49.6	0.0	3.2	0.0	22.9	0.0	9.1	0.0	108.5	0.0	NSA, AR
AUGUST 31	76.5	0.0	5.0	-1.3	18.4	2.9	23.4	-1.4	50.2	1.2	2.9	-8.5	24.0	4.8	9.2	0.9	109.7	1.0	
SEPTEMBER 30	75.6	-1.2	4.8	-3.7	17.7	-3.5	22.5	-3.6	50.3	0.1	2.8	-3.9	24.3	1.1	8.7	-5.0	108.6	-0.9	N.A.
OCTOBER 31	76.4	0.7	5.0	2.6	17.9	1.0	22.9	1.3	52.6	4.6	3.0	5.9	25.4	4.6	8.3	-4.3	112.2	3.2	
NOVEMBER 30	78.9	0.6	4.8	-2.4	18.5	3.3	23.3	2.1	51.7	0.2	2.9	-3.5	26.0	2.2	8.2	-1.2	113.1	0.8	12.2
DECEMBER 31	76.4	-1.7	5.0	4.1	18.1	-1.8	23.2	-0.6	52.4	-0.6	2.8	-1.7	25.3	-2.4	8.2	-0.1	111.9	-1.0	
JANUARY 31	80.0	4.2	4.8	-0.2	17.8	-1.6	22.6	-2.4	54.4	3.8	3.0	6.4	26.2	3.3	8.0	-2.1	114.2	2.0	5.7
FEBRUARY 28	80.5	0.6	5.0	4.1	18.1	0.8	23.0	1.5	54.7	0.6	2.8	-6.5	26.4	0.7	8.0	-0.5	114.8	0.5	
MARCH 31	74.5	-1.7	5.2	3.7	17.5	-0.3	23.1	0.5	53.9	-1.4	2.9	3.1	25.9	-1.7	7.7	-4.3	113.5	-1.1	
JUL 73 - MAR 74 AVERAGE	76.5	0.5	5.0	0.2	18.0	0.1	23.1	-0.3	52.3	1.1	2.9	-1.1	25.2	1.6	8.4	-2.1	111.8	0.6	
NUMBER OF BANKS	131																		

A - 2

^{1/}BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING. **

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MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF MAR. 31, 1974)

TABLE 2 - LOANS UNDER COMMITMENTS ^{2/}

(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FIRMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	65.6	0.0	16.1	0.0	16.9	0.0	34.4	0.0	24.2	0.0	5.1	0.0	16.1	0.0	15.5	0.0	95.4	0.0
AUGUST 31	65.7	-1.2	17.4	7.9	17.3	2.6	34.7	0.8	24.2	-0.2	4.8	-6.9	16.0	-0.5	16.1	4.1	95.8	0.4
SEPTEMBER 30	65.8	2.4	17.5	0.6	18.1	4.6	35.6	2.7	25.0	3.2	4.8	0.8	16.7	4.0	16.7	3.4	98.7	3.0
OCTOBER 31	64.5	-1.4	17.5	-0.2	18.3	1.3	35.8	0.5	23.8	-4.8	4.9	1.7	17.1	2.6	16.4	-1.6	98.0	-0.7
NOVEMBER 30	65.7	2.4	17.6	0.7	19.1	4.4	36.7	2.6	24.0	0.9	5.0	2.0	16.8	-1.7	16.8	2.2	99.3	1.3
DECEMBER 31	67.1	2.0	18.1	2.8	19.0	-0.6	37.1	1.1	24.8	3.5	5.1	2.0	16.5	10.0	17.0	1.2	102.5	3.2
JANUARY 31	66.3	-1.4	18.0	-0.4	19.2	0.7	37.2	0.2	23.8	-4.0	5.3	3.5	17.2	-6.7	17.1	0.4	100.6	-1.8
FEBRUARY 28	67.7	2.0	18.3	1.4	19.6	2.3	37.4	1.9	24.7	3.7	5.1	-4.2	17.2	-0.5	17.1	0.0	101.9	1.2
MARCH 31	72.2	6.6	18.5	1.3	20.5	4.6	39.0	3.0	27.9	12.9	5.2	3.4	18.2	5.8	17.1	0.2	107.4	5.4
JUL 73 - MAR 74 AVERAGE	66.6	1.6	17.9	1.0	18.9	2.5	36.8	1.6	24.0	1.9	5.0	0.3	17.2	1.6	16.8	1.3	100.5	1.5

NUMBER OF BANKS 131

^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

^{2/} LOANS UNDER COMMITMENTS ARE DEFINED AS ALL LOANS UNDER COMMITMENTS CURRENTLY OR PREVIOUSLY IN FORCE, LESS REPAYMENTS OF THE PRINCIPAL. THE REPORTED DATA ARE DISTORTED BY TAKEDOWNS OF LOAN COMMITMENTS BY OVERSEAS BRANCHES OF U.S. BANKS AND LOAN SALES.

NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING.

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MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF MAR. 31, 1974)

TABLE 3 - NEW COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) C & I FARMS TOTAL		(2) C & I TERM LOANS		(3) C & I REVOLVING CREDITS		(4) C & I TERM LOANS & REV. CREDITS		(5) C & I CONFIRMED LINES		(6) C & I OTHER COMMITMENTS		(7) NON-BANK FINANCIAL INSTITUTIONS		(8) REAL ESTATE MORTGAGES		(9) TOTAL COMMITMENTS	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
JULY 31	4.4	0.0	0.8	0.0	0.9	0.0	1.8	0.0	2.2	0.0	0.4	0.0	1.0	0.0	1.2	0.0	6.5	0.0
AUGUST 31	4.3	-2.3	0.9	4.4	1.0	13.0	1.9	6.7	1.9	-14.6	0.5	26.2	0.9	-7.5	1.1	-3.3	6.3	-3.1
SEPTEMBER 30	4.7	-14.6	0.7	-14.8	0.8	-25.3	1.5	-22.8	1.4	-23.2	0.6	46.1	0.6	-9.5	0.7	-34.3	5.2	-17.4
OCTOBER 31	4.3	17.9	0.7	8.7	1.0	28.3	1.7	18.2	1.7	16.2	0.9	16.8	0.9	9.4	1.0	30.4	6.2	18.3
NOVEMBER 30	4.6	7.2	1.0	41.3	1.1	13.5	2.2	25.3	1.7	0.1	0.8	-14.9	0.8	-6.3	0.7	-25.5	6.2	0.1
DECEMBER 31	4.7	1.7	1.3	24.6	1.1	-4.4	2.4	9.5	1.6	-2.2	0.7	-12.4	1.0	27.0	1.0	35.0	6.7	8.9
JANUARY 31	4.5	-4.8	1.8	-39.6	1.8	-24.1	1.6	-32.6	2.0	23.9	0.8	23.8	0.9	-15.8	0.8	-14.8	6.2	-8.0
FEBRUARY 28	4.2	-5.7	0.8	4.7	0.9	6.3	1.7	5.3	2.0	-0.4	0.6	-29.8	0.7	-23.5	0.7	-10.2	5.7	-7.3
MARCH 31	5.5	36.0	1.3	55.2	1.3	43.7	2.5	49.3	2.7	31.7	0.6	11.7	0.8	19.7	0.8	12.8	7.5	31.0
JUL 73 - MAR 74 AVERAGE	4.2	4.7	0.9	5.7	1.0	6.4	1.9	7.4	1.9	4.2	1.7	8.4	0.9	-0.8	0.9	-1.2	6.3	2.8
NUMBER OF BANKS	31																	

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^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING. **

NOT FOR
QUOTATION OR
PUBLICATION

MONTHLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS ^{1/}
(AS OF MAR. 31, 1974)

TABLE 4 - UTILIZATION RATIO ^{2/}

(PERCENTAGES)

	(1) C & I FIRMS TOTAL	(2) C & I TERM LOANS	(3) C & I REVOLVING CREDITS	(4) C & I TERM + REV.	(5) C & I CONFIRMED LINES	(6) C & I OTHER COMMITMENTS	(7) NON-BANK FINANCIAL INSTS.	(8) REAL ESTATE MORTGAGES	(9) TOTAL	(10) SHORT -TERM TOTAL ^{3/}
JULY 31	45.5	76.5	41.6	59.2	32.8	61.6	41.3	63.0	46.8	40.0
AUGUST 31	45.4	77.6	41.5	59.7	37.5	62.0	40.0	63.8	46.6	39.5
SEPTEMBER 30	46.4	77.4	50.5	61.2	33.2	63.1	40.7	65.7	47.6	40.4
OCTOBER 31	45.1	77.9	50.6	61.0	31.1	62.2	40.2	66.3	46.6	39.3
NOVEMBER 30	45.5	71.4	50.9	61.2	31.3	63.5	39.3	67.1	46.8	39.4
DECEMBER 31	46.1	71.2	51.2	61.6	32.2	64.3	42.7	67.4	47.8	40.6
JANUARY 31	44.3	79.0	51.0	62.2	30.5	63.7	39.7	68.0	46.8	39.3
FEBRUARY 28	45.7	78.0	52.1	62.3	31.1	64.2	39.4	68.1	47.0	39.5
MARCH 31	47.5	78.2	52.3	62.8	34.1	64.3	41.2	69.1	48.6	41.6
JUL 73 - MAR 74 AVERAGE	45.6	77.0	50.6	61.2	32.1	63.2	40.4	66.5	47.2	39.9

NUMBER OF BANKS 121

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^{1/} BANKS PARTICIPATING IN THE MONTHLY LOAN COMMITMENT SURVEY ARE SELECTED WEEKLY REPORTING BANKS WITH TOTAL DEPOSITS OF \$100 MILLION OR MORE.

^{2/} THE UTILIZATION RATIO IS THE RATIO, EXPRESSED AS A PERCENTAGE, OF LOANS UNDER COMMITMENTS TO THE SUM OF UNUSED COMMITMENTS AND LOANS UNDER COMMITMENTS

^{3/} EXCLUDES REAL ESTATE LOANS AND TERM LOANS.

NOTE: MINOR INCONSISTENCIES MAY OCCUR DUE TO ROUNDING

SUPPLEMENTAL APPENDIX B*
DEMAND DEPOSIT OWNERSHIP SURVEY
FIRST QUARTER, 1974

Preliminary demand deposit ownership data indicate a contra-seasonal increase in household demand balances in the first quarter of 1974, while other IPC deposit categories declined more sharply than in comparable periods of previous survey years. The strength in household balances was concentrated entirely at banks outside the major money market centers (Table 2), and while difficult to interpret, may have reflected the shift in income to farm sectors and perhaps temporary build-ups in demand balances associated with income tax refunds.

In contrast to the rise in household deposits, nonfinancial businesses reduced their balances by over \$3 billion at non-weekly reporting banks and by over \$4.5 billion at the larger banks--accounting for above 80 percent of the decline in total IPC deposits in the first quarter. At the larger banks, nonfinancial business deposits were especially weak in January (Table 3) --and may have contributed to the decline in M_1 growth in that month--but strengthened noticeably as the quarter progressed.

Other ownership categories, including financial businesses, foreign, and non-profit and charitable institutions ("all other") also exhibited greater than usual weakness in the first quarter at both the large and small banks. The \$200 million decline in foreign balances--almost all of which are held at larger banks--followed five consecutive quarters in which such deposits had increased by a cumulative total of \$1 billion.

Demand deposits included in M_1 normally decline by a sizeable amount in the first quarter on a not seasonally adjusted basis. Even so, however, a comparison of the DDOS change in total IPC demand deposits with the change in the demand deposit component of the money supply, adjusted for differences in definition,^{1/} suggests that the first quarter DDOS figures may overstate the actual decline in such balances by as much as \$1.1 billion. This difference may even be larger when the money supply figures are revised upward to reflect the recent benchmark revision. The error in the DDOS estimates is largely attributable to sampling problems which have increased in the last year due to a rising

^{1/} DDOS figures include cash items in process of collection and exclude various non-IPC deposits such as deposits of foreign governments and institutions, and State and local government deposits.

* Prepared by Martha S. Scanlon, Economist, Banking Section,
Division of Research and Statistics.

number of non-reporting sample banks and perhaps less reliable reporting by banks still in the sample. However, even if the DDOS data were adjusted to correct for this understatement, the resulting analysis would most likely not be significantly changed--namely, that most of the strength in demand deposits in the first quarter occurred in consumer balances at banks outside the large cities.

Table 1
CHANGE IN LEVEL OF GROSS IPC DEPOSITS BY OWNERSHIP
CATEGORY, ALL COMMERCIAL BANKS ^{1/}
(Billions of dollars, not seasonally adjusted)

Year	Financial business				Nonfinancial business				Households			
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
1970	n.a.	n.a.	0	.3	n.a.	n.a.	2.7	4.6	n.a.	n.a.	2.4	2.2
1971	1.0	-.2	.2	.6	-6.4	3.3	1.9	6.9	.8	1.8	1.2	1.2
1972	1.7	-2.3	0	.9	-5.8	5.0	4.0	8.4	-3.9	5.7	2.6	2.4
1973	-.2	-.1	.2	.2	-7.1	3.8	1.7	7.8	-.3	2.2	1.8	.9
1974	-.2				-7.7				.6			

Year	Foreign				All other				Total			
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
1970	n.a.	n.a.	-.2	-.1	n.a.	n.a.	.4	.3	n.a.	n.a.	5.3	7.3
1971	.1	-11	-.1	.1	.3	0	-.8	1.0	-4.2	4.9	2.1	9.7
1972	0	0	0	.1	1.6	-1.3	.4	.9	-6.3	7.1	7.0	12.6
1973	.2	.3	.1	.3	-.5	0	.2	.4	-9.0	6.3	4.0	9.7
1974	-.2				-1.4				-8.9			

^{1/} Changes are based on daily averages of last-month-in-quarter to last-month-in-quarter, not annualized.
Data are before deduction for cash items in process of collection.

Figures may not add to totals due to rounding.

Table 2
FIRST QUARTER CHANGE IN LEVEL OF GROSS IPC DEMAND DEPOSITS
BY OWNERSHIP CATEGORY, AT WEEKLY REPORTING BANKS VS. NON-WEEKLY REPORTING BANKS 1/
(Billions of dollars, not seasonally adjusted)

Year	<u>Financial business</u>			<u>Nonfinancial business</u>			<u>Households</u>		
	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL
1971	.7	.3	1.0	-3.7	-2.7	-6.4	.6	.2	.8
1972	-.4	2.1	1.7	-2.7	-3.1	-5.8	.3	-4.2	-3.9
1973	-.3	.1	-.2	-5.3	-1.8	-7.1	-.7	.4	-.3
1974	-.3	.1	-.2	-4.6	-3.1	-7.7	-.4	1.0	.6

Year	<u>Foreign</u>			<u>All other</u>			<u>Total</u>		
	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL	WRB	NON-WRB	TOTAL
1971	.1	0	.1	.2	.1	.3	-2.2	-2.0	-4.2
1972	0	0	0	.1	1.5	1.6	-2.7	-3.6	-6.3
1973	.2	0	.2	-.2	-.3	-.5	-6.4	-1.6	-8.0
1974	-.2	0	-.2	-.5	-.9	-1.4	-6.0	-2.9	-8.9

1/ Changes are based on daily averages of last-month-in-quarter to last-month-in-quarter, not annualized. Data are before deduction for cash items in process of collection. Only data for total and weekly reporting banks are reported; figures for non-weekly reporting banks are residuals.

Figures may not add to totals due to rounding.

Table 3
CHANGE IN LEVEL OF GROSS IPC DEPOSITS BY OWNERSHIP
CATEGORY, WEEKLY REPORTING BANKS
(Billions of dollars, not seasonally adjusted)

Year	Financial business			Nonfinancial business			Households		
	Jan.	Feb.	Mar.	Jan.	Feb.	Mar.	Jan.	Feb.	Mar.
1971	.4	0	.3	-1.7	-2.2	.2	.4	-.6	.8
1972	0	-.7	.3	-1.8	-1.4	.5	.7	-1.0	.6
1973	.3	-.7	.1	-1.3	-2.8	-1.2	.6	-1.5	.2
1974	.3	-1.1	.6	-2.3	-1.7	-.6	.4	-1.5	.7

Year	Foreign			All other			Total		
	Jan.	Feb.	Mar.	Jan.	Feb.	Mar.	Jan.	Feb.	Mar.
1971	0	0	0	0	0	.2	-1.0	-2.8	1.6
1972	-.1	0	.1	0	0	.1	-1.2	-3.1	1.6
1973	0	.2	0	.2	-.2	-.2	-.2	-5.1	-1.1
1974	0	0	-.2	-.1	-.6	.1	-1.6	-4.9	.6

Note: Data are before deduction for cash items in process of collection.

A - C
SUPPLEMENTAL APPENDIX C
AGRICULTURAL FINANCE*

Income and Investment

The past two years have seen truly extraordinary financial developments in the farming sector, resulting primarily from a sharp rise in profitability of many farming operations, particularly the production of crops and feeder cattle. In the first quarter of 1974, total net farm income (seasonally-adjusted annual rate) was 84 per cent above the 1966-70 average, and net income per farm was 100 per cent higher.

FARM INCOME

	1966-70 average	1971	1972	1973	1974 Q1 SAAR
Total (billions of dollars):					
Gross income	52.8	61.5	69.5	91.4	108.2
Production expenses	36.8	44.5	49.2	64.4	80.0
Net income	15.9	16.9	20.3	27.1	29.2
Net income per farm (dollars)	5,174	5,816	7,089	9,513	10,350

Improved farm income, increased crop acreage, and higher prices for farm machinery and building materials were among major factors combining to push farm capital expenditures upward in recent years. Total capital spending in 1973 was 23 per cent above that of 1972 and 52 per cent above the 1966-70 average.

FARM CAPITAL EXPENDITURES
(billions of dollars)

	1966-70 average	1971	1972	1973
Capital expenditures	6.2	6.6	7.6	9.4
Buildings	1.3	1.4	1.5	1.8
Autos	.6	.6	.6	.6
Trucks	.7	.8	.8	.9
Tractors	1.1	1.2	1.5	1.8
Other farm machinery	2.5	2.5	3.1	4.2

*Prepared by Emanuel Melichar, Senior Economist, Mortgage, Agricultural, and Consumer Credit Section, Division of Research and Statistics.

Assets

The extraordinary per-acre profits extracted from farm land in 1973 and in prospect for 1974 triggered a sharp advance in farm land prices. Farm real estate prices nationally rose by 13 per cent in 1972 and by 25 per cent in 1973 (preliminary confidential estimate, data are for years starting March 1). On April 1, 1974, a survey of rural bankers in the Chicago Federal Reserve District indicated that farm land prices rose an average of 12 per cent in that area during the first quarter of 1974, and that the rise over the preceding 12 months totaled 34 per cent. Nationally, preliminary estimates place the rise in the total value of farm real estate at over \$50 billion in 1973. In addition, the assets and net worth of the farming sector were swelled by increases in the prices of holdings of livestock and stored crops and by continued uptrends in machinery, financial, and household assets.

CHANGES IN FARM ASSETS AND PROPRIETORS' EQUITIES

	1966-70 average	1971	1972	1973
<u>Billions of dollars</u>				
Assets	12.5	25.1	42.9	76.1
Real estate	8.4	16.4	28.2	51.0
Machinery	1.6	2.0	3.1	3.2
Livestock	1.2	3.6	6.8	11.7
Stored crops	.2	1.1	2.2	6.4
Household	.3	.7	.9	1.7
Financial*	.7	1.2	1.7	2.1
Proprietors' equities	8.6	19.4	36.2	67.7
<u>Per farm, dollars</u>				
Assets	4,048	8,628	14,957	26,745
Real estate	2,702	5,640	9,822	17,936
Proprietors' equities	2,272	6,653	12,614	23,806

* Financial assets include only currency, bank deposits, U. S. savings bonds, and investments in cooperatives.

Credit

The unprecedented increases in farm income, expenditures, assets, and net worth were accompanied by record additions to outstanding farm debt in 1972 and again in 1973, primarily as a result of the large advances in production expenses and substantially increased activity in the farm land market, at advancing prices. Net additions to farm debt were supplied primarily by commercial banks, the cooperative Farm Credit System (Federal Land Banks, Federal Intermediate Credit Banks, and production credit associations), and "individuals and others," a category that includes sellers of farms and farm input manufacturers and dealers.

NET CHANGES IN OUTSTANDING FARM DEBT

	1966-70 average	1971	1972	1973
<u>Billions of dollars</u>				
Total	3.8	5.4	7.1	10.0
Banks	.9	1.8	2.4	3.6
Farm Credit System	1.1	1.5	1.7	3.2
Life insurance companies	.2	--	.1	.4
Farmers Home Administration	.2	.2	.2	.3
Individuals and other lenders	1.4	1.9	2.7	2.5
<u>Percentage change</u>				
Total	8.1	9.0	11.0	13.9
Banks	7.7	12.4	14.3	18.9
Farm Credit System	12.7	12.1	12.1	20.0
Life insurance companies	3.2	- .8	1.4	7.3
Farmers Home Administration	7.9	4.8	6.7	7.5
Individuals and other lenders	7.5	8.2	11.0	9.1

Farm mortgage lending exhibited strength throughout 1973, while non-real-estate lending institutions experienced unusually high loan demand during the second half of the year, when outstanding production loans generally decline. Reasons that have been cited for this development

include the sharp third-quarter rise in grain and livestock prices; withholding of livestock from market; slow grain marketing because of transportation difficulties, expectations of further price increases, and to postpone receipt of taxable income into the next tax year; accelerated purchases of production inputs in expectation of price increases or shortages as well as to secure deductions or investment credits against 1973 taxes; and reduced availability of credit from suppliers.

SEMIANNUAL PERCENTAGE CHANGES IN FARM NON-REAL-ESTATE DEBT

	1966-70 average	1971	1972	1973
<u>First half of year</u>				
Total (specified lending institutions)	12.1	12.6	9.8	13.0
Banks	8.9	10.1	8.9	11.7
Farm Credit System	18.6	17.4	11.7	13.3
Farmers Home Administration	18.0	14.2	8.1	34.9
<u>Second half of year</u>				
Total (specified lending institutions)	- 2.4	- .1	2.1	6.3
Banks	- 1.2	2.2	5.2	8.4
Farm Credit System	- 2.9	- 2.4	- 2.8	4.8
Farmers Home Administration	-13.4	-15.1	- 6.4	-14.5

During the first quarter of 1974, net borrowing from the Farm Credit System approximated that of early 1973.

Among the agricultural banks participating in the quarterly agricultural credit conditions survey in the Chicago Federal Reserve District, nearly one-half had continued to experience greater farm loan demand during the first quarter of 1974, down somewhat from the recent peak of 58 per cent experiencing greater demand last spring. Three-fifths of the bankers expected greater non-real-estate loan demand in the second quarter, to be concentrated in operating and machinery loans. Over half of the bankers expected reduced demand for feeder cattle loans.

NET CHANGES IN OUTSTANDING FARM DEBT DURING THE FIRST QUARTER

	1966-70 average	1971	1972	1973	1974
<u>Millions of dollars</u>					
Production credit associations	269	424	318	328	352
Federal Land Banks	170	160	222	475	520
<u>Percentage change</u>					
Production credit associations	7.7	8.0	5.2	4.9	4.5
Federal Land Banks	3.2	2.2	2.8	5.2	4.8

In the quarterly survey of rural banks in the Minneapolis Federal Reserve District, the proportion of bankers expecting greater-than-usual demand for short-term farm loans during the second quarter rose to 24 per cent, the highest proportion expecting increased demand since 1971.

In large part because of the influx of deposits associated with higher gross and net farm income, rural banks in both Districts on average remained in sufficiently liquid position to service the additional loan demands they anticipated. Average loan-deposit ratios had by April 1 moved back to year-earlier levels, down about two percentage points from peaks reached briefly last fall. Except for such minor variations, loan-deposit ratios at agricultural banks have remained relatively unchanged since 1969. In the Chicago District, half of the bankers surveyed on April 1 desired a loan-deposit ratio above their current level, about the same percentage as in the last three years. In the Minneapolis District, 76 per cent of the rural bankers surveyed were actively seeking new farm loan accounts and 29 per cent regarded their loan-deposit ratio as lower than desirable, both proportions being roughly the same as those reported quarterly over the past two years.

As of April 1, interest rates charged on farm loans remained at the levels first reached in the fall of 1973. In the Minneapolis District, the most common rate charged was in the range between 7.5 and 9 per cent at nearly all of the rural banks surveyed, for farm loans

of all maturities. In the Chicago District, two-thirds of the agricultural banks surveyed on April 1 were charging between 8 and 8.5 per cent on feeder cattle loans, and nearly three-fourths of the banks were charging in that range on farm real estate loans.

Over the past two years, farm loan rates charged by production credit associations and by the larger commercial banks were raised much more quickly after increases in money-market interest rates than were rates at the smaller banks surveyed quarterly in the Chicago and Minneapolis Districts. Billing rates on Federal Land Bank loans, a majority of which are now on a variable-rate plan geared to the average cost of outstanding funds raised by the Federal Land Banks, also lagged significantly behind the rise in money-market rates.

AVERAGE INTEREST RATES ON NEW FARM LOANS
(Per cent)

	1972		1973		1974
	Apr. 1	Oct. 1	Apr. 1	Oct. 1	Apr. 1
Rural commercial banks					
Chicago F. R. District:					
Feeder cattle loans	7.46	7.47	7.55	8.27	8.30
Real estate loans	7.62	7.64	7.71	8.35	8.39
Minneapolis F. R. District:					
Short-term loans	8.02	8.02	8.08	8.55	8.53
Intermediate-term loans	8.13	8.15	8.20	8.67	8.65
Long-term loans	7.87	7.91	7.95	8.43	8.43
Banks reporting for G.10 release: ^{a/}					
Feeder cattle loans	7.44	7.56	8.03	9.71	9.55 ^{b/}
Other production loans	7.57	7.72	8.01	9.09	9.14 ^{b/}
Production credit associations ^{c/}	7.20	7.11	7.71	8.98	9.25 ^{d/}
Federal Land Banks ^{c/}	7.42	7.38	7.35	7.75	7.83
Life insurance companies ^{e/}	8.31	8.26	8.29	8.70	9.01 ^{f/}

^{a/} Mostly larger commercial banks, most common rates in first week of month.

^{b/} Data for March 1974.

^{c/} Simple averages estimated by Federal Reserve Board staff. Federal Land Bank rates are not adjusted for stock purchase required.

^{d/} Data for January 1, 1974.

^{e/} Average rate on farm mortgage commitments in the quarter ending day before date shown.

^{f/} Data for fourth quarter of 1973.

Outlook

Since February, livestock and crop prices have generally declined significantly. Feedlot operations have remained unprofitable in spite of the reduced prices of feed and feeder livestock. Profit expectations for 1974 crops have probably been scaled down from first quarter hopes, but output prices currently indicated would still yield high net returns. Rising prices of production inputs purchased from the nonfarm sector are offsetting price declines in inputs purchased from other farmers.

Early reactions to these events appeared in the April 1 survey in the Minneapolis District. The proportion of bankers anticipating lower farm income in the second quarter rose sharply, but few bankers expected spending by farmers to decrease. The proportion of bankers expecting an adverse change in the ability of farmers to repay debt rose to 24 per cent from a level under 10 per cent in the preceding six quarters. It should be noted, however, that these bankers have been reporting an unusually high rate of farm debt repayment.

As usual in a competitive sector, abnormally high profits have set in motion forces that tend to eliminate them: increases in output and in the price of the major limiting resource, land. The speed and course of the adjustment process will as always be affected by many natural, economic, and political factors.

In the last major adjustment, following the high farm profits of the Marshall Plan and Korean War years, farming sector asset values were deflated for two years as the value of livestock and stored crop inventories decreased. Land prices fell during one of those years, as did outstanding farm debt. A "cost-price squeeze" continued for perhaps a decade, during which crop acreage was gradually reduced to 85 per cent of its 1952 peak. A downward adjustment in the real stock of farm machinery began about three years into this period, and the real stock was reduced by a total of 6 per cent over the next seven years.

The ongoing adjustment will undoubtedly differ, just as the post-Korean adjustment differed significantly from that following World War I (when farm land prices fell for 13 consecutive years, for a total decrease of 59 per cent). In particular, hopes remain high that foreign demand for U. S. farm commodities will be sustained at levels that would make large downward output adjustments unnecessary. In that event, gross farm income and investment would more likely be sustained, and net income would be eroded more slowly through continued capitalization into higher land values and through probable increases in other production expenses.